



2022

ANNUAL REPORT



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

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CORPORATE INFORMATION



DIRECTORS

Executive Directors

Mr. Zhang Haijun (*Chairman*)
 Mr. Wu Jinyu
 Mr. Zhang Lihuan
 Mr. Zhang Chao
 Ms. Ma Xuehui

Non-executive Director

Ms. Zheng Zhixing⁽¹⁾
 Ms. Gu Xiaohui⁽²⁾

Independent non-executive Directors

Mr. Jip Ki Chi
 Mr. Wang Fujun⁽³⁾
 Mr. Zhang Ligu
 Mr. Wang Qi⁽⁴⁾

SUPERVISORY BOARD

Mr. Guan En (*Chairman*)
 Mr. Liu Jianbin
 Mr. Hu Hebin

AUDIT COMMITTEE

Mr. Jip Ki Chi (*Chairman*)
 Mr. Wang Fujun⁽³⁾
 Mr. Zhang Ligu
 Mr. Wang Qi⁽⁴⁾

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Wang Fujun⁽³⁾
 Mr. Wu Jinyu
 Mr. Zhang Ligu
 Mr. Wang Qi⁽⁴⁾

CORPORATE GOVERNANCE COMMITTEE

Mr. Jip Ki Chi (*Chairman*)
 Mr. Wang Fujun⁽³⁾
 Mr. Zhang Chao
 Mr. Wang Qi⁽⁴⁾

STRATEGY COMMITTEE

Mr. Zhang Haijun (*Chairman*)
 Mr. Wu Jinyu
 Mr. Zhang Ligu

COMPANY SECRETARIES

Ms. Ng Wai Kam (ACG, HKACG)
 Mr. Zhang Chao⁽⁵⁾

AUTHORIZED REPRESENTATIVES

Mr. Zhang Haijun
 Ms. Ng Wai Kam

ALTERNATES TO THE AUTHORIZED REPRESENTATIVES

Mr. Wu Jinyu
 Mr. Zhang Chao

⁽¹⁾ Appointed as a non-executive Director on 13 September 2022

⁽²⁾ Retired as the non-executive Director on 13 September 2022

⁽³⁾ Appointed as an independent non-executive Directors on 31 May 2022

⁽⁴⁾ Resigned as the independent non-executive Director on 13 April 2022

⁽⁵⁾ Resigned as the joint company secretary on 17 January 2023

Corporate Information (Continued)

**AUDITOR**

Pan-China Certified Public Accountants LLP
31th Floor, Tower B, China Resources Building
1366 Qianjiang Road, Shangcheng District
Hangzhou, Zhejiang Province
PRC

HONG KONG LEGAL ADVISER

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

PRC LEGAL ADVISER

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

REGISTERED OFFICE AND HEADQUARTERS

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

ADDITIONAL REGISTERED ADDRESS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
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Hong Kong

H SHARE REGISTRAR

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

STOCK CODE

1596

COMPANY WEBSITE

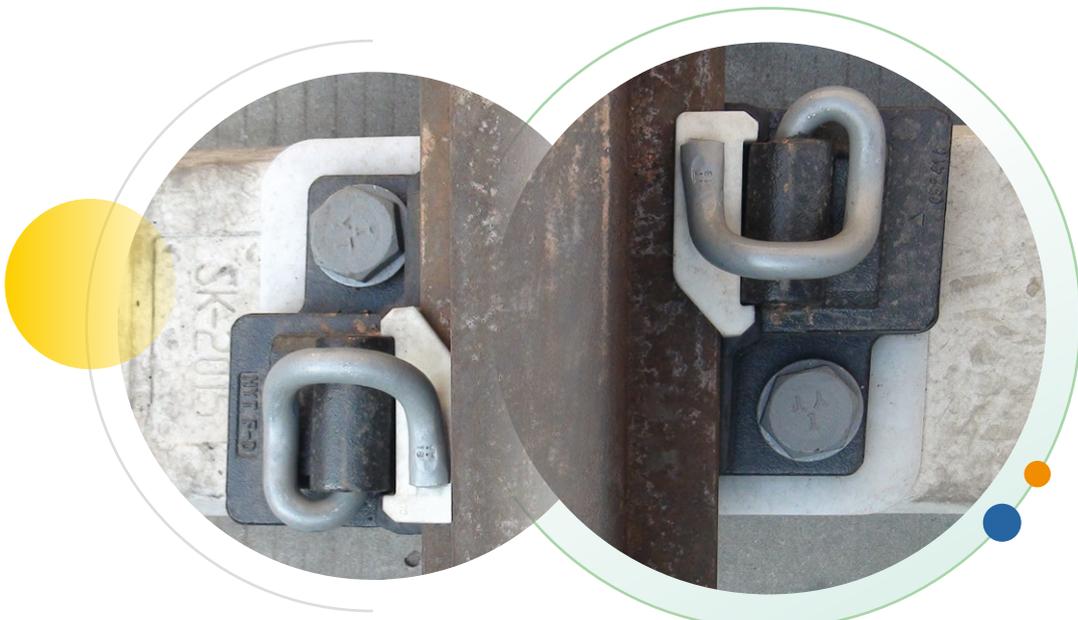
<http://www.hbyc.com.cn>

FINANCIAL SUMMARY

	2022	2021	2020	2019 (Restated)	2018 (Restated)
Results (RMB'000)					
Revenue	1,258,266	1,363,645	1,142,058	1,136,913	1,106,981
Cost of sales	(955,756)	(947,636)	(736,634)	(773,825)	(758,681)
Gross profits	302,510	416,009	405,424	363,088	348,300
Selling expenses	(18,693)	(21,260)	(18,823)	(20,417)	(14,081)
Management expenses	(79,716)	(82,105)	(69,994)	(65,197)	(65,618)
Profit before income tax	183,475	284,481	296,379	227,656	189,791
Net profit attributable to owners of the parent	161,032	246,088	252,233	193,822	162,969

	2022	2021	2020	2019 (Restated)	2018 (Restated)
Assets and Liabilities (RMB'000)					
Non-current assets	1,409,306	1,296,395	1,103,620	991,880	730,237
Current assets	2,186,122	1,925,586	1,794,407	1,855,981	1,785,973
Non-current liabilities	202,978	225,466	32,131	124,051	35,641
Current liabilities	919,183	635,634	753,491	726,826	612,028
Equity attributable to owners of the parent	2,460,981	2,349,723	2,103,635	1,921,800	1,798,010

The Group has adopted the PRC Accounting Standards for Business Enterprises in the preparation of its overseas financial statements since 2019, and has restated its 2018 consolidated financial statements in accordance with the PRC Accounting Standards for Business Enterprises.



CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to announce the annual results of the Group for the year ended 31 December 2022.

2022 REVIEW

In 2022, the triple pressure of shrinking domestic demand, supply shocks and weakening expectations, coupled with unexpected factors such as recurring outbreaks of COVID-19, high temperatures and drought, have brought significant impact. In response to the tough situation, the Chinese government adopted scientific and precise measures to prevent and control the pandemic, introduced a package of policies and measures to stabilise the economy in a timely manner, and made every effort to ensure stability of production and life. As a result, China withstood the pressure and made continuous development in its economy. In 2022, China's GDP reached RMB121 trillion, representing a year-on-year increase of 3.0%.

Looking back at the past year, new achievements were made in China's high-quality development of railways. The fixed asset investments amounted to RMB710.9 billion and 4,100 km of new lines were put into operation, including 2,082 km of high-speed railways, fulfilling the annual task of railway construction successfully. By the end of 2022, the operational mileage of China's railways exceeded 155,000 km, of which more than 42,000 km were high-speed railways. During the year, railway projects in 102 key projects identified by the Outline of the national "14th Five-Year Plan" have been smoothly rolled out, 26 projects such as the Beijing-Xiong'an-Shangqiu High-speed Railway (Xiong'an to Shangqiu section), Tianjin-Weifang High-speed Railway and Rujin-Meizhou Railway commenced construction and 29 railway projects such as Hotan-Ruoqiang Railway, Zhengzhou-Chongqing High-speed Railway (Xiangyang to Wanzhou section), Hefei-Hangzhou High-speed Railway (Huzhou to Hangzhou section), Yinchuan-Lanzhou High-speed Railway (Zhongwei to Lanzhou section) and Beijing Fengtai Station were completed and put into operation, which have given full play to the role of railway investment as a driver to boost investment in society as a whole.

The repeated outbreaks of the COVID-19 in Shijiazhuang, Hebei Province have shocked the Group to a certain extent. The Group insisted on attaching equal importance to pandemic prevention and control and safety production, closely monitoring the developments of the pandemic, adopting stringent and effective response measures and taking the protection of employees' safety and health as the primary task. The Company made timely adjustments to its manufacturing and operation plans, which minimised the adverse impact from the pandemic. For the year ended 31 December 2022, the revenue of the Group amounted to approximately RMB1,258,266,000, representing a decrease of approximately 7.7% over the same period of last year; the net profit attributable to equity shareholders of the Company amounted to approximately RMB161,032,000, representing a decrease of approximately 34.6% over the same period of last year; and earnings per share amounted to approximately RMB0.18.

2023 OUTLOOK

In 2023, China's economy and society will fully return to normal. As various factors promoting economic recovery and development are mutually reinforcing, the major economic indicators will improve significantly and economic operation will show a steady recovery with growth. According to the working meeting of China State Railway Group Co., Ltd., in 2023, it will focus on enhancing the overall function and efficiency of railway network, emphasising the improvement in quality, energy and efficiency, promoting national priorities projects such as Sichuan-Tibet Railway in a high-quality manner, and completing the national railway investment task in an all-round manner. More than 3,000 km of new lines were put into operation, including 2,500 km of high-speed railways.

Chairman's Statement (Continued)

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 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 interregional 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.

Looking ahead, with overall technical level of China’s railways stepping into the world’s advanced ranks, it will become one of the key tasks to promote the railway construction in a scientific, orderly, safe and high-quality manner. As a leading rail fastening system products and railway sleeper products provider in China, the Company will firmly grasp the market development opportunities under the goal of building a strong transport system, adhere to taking high-quality rail fastening system products and railway sleeper products as its core, focus on improving the service level of product quality, and be committed to contributing to the high standard of construction and safe operation of China’s railways and benefiting the society. In terms of business development, the Company will keep consolidating its leadership in the rail fastening market. By leveraging on advanced technologies, quality products and extensive experience, it will continuously increase its market share, expand the sales network of railway sleepers, and give full play to the synergistic effects of rail fastening business and railway sleeper business. Meanwhile, the Company will proactively expand the customer base of welding wire products, to facilitate business diversification, high-quality development and to enhance the Company’s profitability.

Finally, I would like to express my sincere gratitude to our Directors, management team and all the staff members of the Company for their hard work in 2022. I also wish to extend my sincere gratitude to our shareholders and business partners for their strong support over the past year.

Zhang Haijun

Chairman

Hebei, 30 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS



Industrial Review and Analysis

In 2022, the triple pressure of shrinking domestic demand, supply shocks and weakening expectations, coupled with unexpected factors such as recurring outbreaks of COVID-19, high temperatures and drought, have brought significant impact. In response to the tough situation, the Chinese government adopted scientific and precise measures to prevent and control the pandemic, introduced a package of policies and measures to stabilise the economy in a timely manner, and made every effort to ensure stability of production and life. As a result, China withstood the pressure and made continuous development in its economy. In 2022, China's GDP reached RMB121 trillion, representing a year-on-year increase of 3.0%.

According to the working meeting of China State Railway Group Co., Ltd., in 2022, the fixed asset investments in national railways amounted to RMB710.9 billion and 4,100 km of new lines were put into operation, including 2,082 km of high-speed railways, fulfilling the annual task of railway construction successfully. By the end of 2022, the operational mileage of China's railways exceeded 155,000 km, of which 42,000 km were high-speed railways. During the year, railway projects in 102 key projects identified by the Outline of the national "14th Five-Year Plan" have been smoothly rolled out, 26 projects such as the Beijing-Xiong'an-Shangqiu High-speed Railway (Xiong'an to Shangqiu section), Tianjin-Weifang High-speed Railway and Rujin-Meizhou Railway commenced construction and 29 railway projects such as Hotan-Ruoqiang Railway, Zhengzhou-Chongqing High-speed Railway (Xiangyang to Wanzhou section), Hefei-Hangzhou High-speed Railway (Huzhou to Hangzhou section), Yinchuan-Lanzhou High-speed Railway (Zhongwei to Lanzhou section) and Beijing Fengtai Station were completed and put into operation, which have given full play to the role of railway investment as a driver to boost investment in society as a whole.

Management Discussion and Analysis (Continued)

At the same time, China's urban rail transit construction has maintained momentum of rapid development. According to the China Association of Metros, urban rail transit lines with mileage over ten thousand kilometers (amounting to 10,291.95 kilometers) were put into operation in 55 cities across China (excluding Hong Kong, Macao and Taiwan regions) as of 31 December 2022. Throughout the year, there were 25 new urban rail transit lines with operational mileage of 1,085.17 km newly set up. During the year, the Company firmly captured the development opportunities of China's railway construction 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) welding wire products; and (3) railway sleeper products. In 2022, total revenue of the Group amounted to approximately RMB1,258.3 million, representing a decrease of approximately 7.7%.



Management Discussion and Analysis (Continued)

Rail Fastening System Products

For the year ended 31 December 2022, revenue from rail fastening system products amounted to approximately RMB870.5 million, accounting for approximately 69.2% of the Group's total revenue and representing a decrease of approximately 13.5% from revenue of approximately RMB1,006.7 million from this segment last year. This was resulted from the decrease in shipments of rail fastening system products due to the pandemic.

During the year under review, cost of sales relating to rail fastening system products decreased by approximately 5.2% from approximately RMB643.1 million in 2021 to approximately RMB609.4 million in 2022, which was mainly attributable to lower costs resulted from decrease in revenue from rail fastening system products during the year.

As a result of decrease in revenue from rail fastening system products, gross profit of rail fastening system products decreased by approximately 28.2% from approximately RMB363.6 million in 2021 to approximately RMB261.1 million in 2022. The gross profit margin of rail fastening system products decreased from approximately 36.1% in 2021 to approximately 30% in 2022 due to changes in product structure.

During the year under review, the Group's initial value of the agreements entered into on supplying rail fastening system products was approximately RMB1,172.7 million, representing a decrease of approximately 1.15% as compared to 2021. Specifically, the initial value of the agreements entered into on supplying high-speed rail fastening system products amounted to approximately RMB792.2 million, representing an increase of approximately 10.3% as compared to 2021; the initial value of the agreements entered into on supplying urban transit fastening system products amounted to approximately RMB196.0 million; the initial value of the agreements entered into on supplying heavy-haul rail fastening system products

amounted to approximately RMB1.7 million; and the initial value of the agreements entered into on normal-speed rail fastening system products amounted to approximately RMB182.9 million. As of 31 December 2022, the backlog of the Group amounted to approximately RMB1,249.9 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.

Welding Wire Products

For the year ended 31 December 2022, revenue from welding wire products amounted to approximately RMB311.2 million, accounting for approximately 24.7% of the total revenue of the Group and representing an increase of approximately 28.6% from approximately RMB241.9 million for the year of 2021. The change in revenue was mainly attributable to the increase in sales volume of flux cored wire products during the year under review and the addition of solid welding wire products during the year under review.

During the year under review, cost of sales from welding wire products increased by approximately 28.1% to approximately RMB293.7 million in 2022 from approximately RMB229.3 million in 2021, which was mainly attributable to increase in sales volume of welding wire products during the year under review.

The Group's revenue from welding wire products was mainly generated from the sales to shipbuilding companies and trading companies engaging in the shipbuilding industry. The Group 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 welding wire products in the future.

Management Discussion and Analysis (Continued)

Railway Sleeper Products

For the year ended 31 December 2022, revenue from railway sleeper products was approximately RMB68.6 million, accounting for approximately 5.5% of the Group's total revenue and representing a decrease of approximately 24.2% from approximately RMB90.5 million in 2021. The change in revenue was mainly attributable to the slowdown in project construction progress of downstream customers due to the pandemic during the year under review.

During the year under review, cost of sales of railway sleeper products decreased by approximately 15.4% from approximately RMB56.6 million in 2021 to approximately RMB47.9 million in 2022, mainly attributable to decrease in sales volume of railway sleeper products.

PERFORMANCE ANALYSIS AND DISCUSSION

Revenue

The Group's business operations mainly comprise research and development, manufacturing and sales of rail fastening system products, welding wire products and railway sleeper products. The above business segments have brought sustained and stable revenue to the Group. In 2022, the revenue of the Group decreased to approximately RMB1,258.3 million from approximately RMB1,363.6 million in 2021, mainly as a result of decrease in revenue from rail fastening system products and railway sleeper products.

Revenue related to rail fastening system products decreased by approximately 13.5% to approximately RMB870.5 million in 2022 from approximately RMB1,006.7 million in 2021, which was attributable to decrease in shipments of rail fastening system products due to the pandemic.

Revenue related to welding wire products increased by approximately 28.6% from approximately RMB241.9 million in 2021 to approximately RMB311.2 million in 2022. The change in revenue from welding wire products was mainly attributable to the increase in sales volume of flux cored wire products during the year under review and the addition of solid welding wire products during the year under review.

Revenue related to railway sleeper products decreased by approximately 24.2% from approximately RMB90.5 million in 2021 to approximately RMB68.6 million in 2022. The change in revenue from railway sleeper products was mainly attributable to the slowdown in project construction progress of downstream customers due to the pandemic during the year.

Apart from revenue from sales of rail fastening system products, flux cored welding 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.

Operating Cost

The Group's operating cost increased by approximately 0.9% to approximately RMB955.8 million in 2022 from approximately RMB947.6 million in 2021, representing a smaller change compared to last year.

Operating cost related to rail fastening system products decreased by approximately 5.2% to approximately RMB609.4 million in 2022 from approximately RMB643.1 million in 2021, which was mainly attributable to decrease in revenue from rail fastening system products during the year under review.

Management Discussion and Analysis (Continued)

Operating cost related to welding wire products increased by approximately 28.1% to approximately RMB293.7 million in 2022 from approximately RMB229.3 million in 2021, which was mainly attributable to increase in sales volume of welding wire products during the year under review.

Operating cost related to railway sleeper products decreased by approximately 15.4% to approximately RMB47.9 million in 2022 from approximately RMB56.6 million in 2021, which was mainly attributable to decrease in the sales volume of railway sleeper products during the year under review.

Gross Profit

Based on the aforesaid reasons, the Group recorded a gross profit of approximately RMB302.5 million in 2022, representing a year-on-year decrease of approximately 27.3% as compared to the gross profit of approximately RMB416.0 million in 2021, which was mainly due to decrease in revenue from rail fastening system products and railway sleeper products during the year.

Gross profit of rail fastening system products decreased by approximately 28.2% from approximately RMB363.6 million in 2021 to approximately RMB261.1 million in 2022, and the gross profit margin decreased from approximately 36.1% in 2021 to approximately 30% in 2022, which was mainly attributable to decrease in revenue of rail fastening system products and change in product structure during the year under review.

Gross profit of welding wire products increased by approximately 38.9% to approximately RMB17.5 million in 2022 from approximately RMB12.6 million in 2021, gross profit margin increased from approximately 5.2% in 2021 to approximately 5.6% as compared to 2022, which was mainly attributable to decrease in material cost of welding wire products.

Gross profit of railway sleeper products decreased by approximately 38.9% to approximately RMB20.7 million in 2022 from approximately RMB33.9 million in 2021. Gross profit margin decreased to 30.2% from approximately 37.5% in 2021, which was mainly attributable to decrease in revenue of railway sleeper products and changes in product structure.

Selling Expenses

Selling expenses of the Group decreased to approximately RMB18.7 million in 2022 from approximately RMB21.3 million in 2021. For the years ended 31 December 2021 and 2022, selling expenses as a percentage of total revenue accounted for approximately 1.6% and 1.5%, respectively. The decrease in selling expenses was mainly attributable to decrease in product testing and certification fee.

Management Expenses

Management expenses of the Group decreased to approximately RMB79.7 million in 2022 from approximately RMB82.1 million in 2021. For the years ended 31 December 2021 and 2022, management expenses as a percentage of total revenue accounted for approximately 6.0% and 6.3%, respectively. The decrease in management expenses was mainly due to the decrease in agency fees.

Research and Development Expense

Research and development expense of the Group decreased to approximately RMB42.9 million in 2022 from approximately RMB44.6 million in 2021. The decrease in research and development expense was mainly due to the decrease in research and development investment for the period under review. For the years ended 31 December 2021 and 2022, research and development expense as a percentage of total revenue accounted for approximately 3.3% and 3.4%, respectively.

Management Discussion and Analysis (Continued)

Finance Costs

In 2022, the Group incurred total finance costs of approximately RMB19.7 million, representing a year-on-year increase of approximately 41.7% as compared to total finance costs of approximately RMB13.9 million in 2021. Under this category, interest income decreased by approximately 25.9% to approximately RMB2.0 million in 2022 from approximately RMB2.7 million in 2021. Interest expenses increased by approximately 33.5% to approximately RMB21.1 million in 2022 from approximately RMB15.8 million in 2021. The increase in finance costs was mainly due to increase in interest expenses during the year.

Investment Gains

In 2022, the Group's investment gains totalled approximately RMB41.0 million while the total investment gains were approximately RMB34.1 million in 2021, mainly due to increase in investment gains from disposal of financial assets held for trading during the year. The Group recorded an aggregate of approximately RMB32.7 million in share of investment gains from associates in 2022, representing an insignificant change from such share of investment gains of approximately RMB32.0 million recorded in the corresponding period in 2021.

Total Profit

Based on the aforesaid reasons, the Group recorded operating profit of approximately RMB183.5 million in 2022, representing a year-on-year decrease of approximately 35.5% as compared to operating profit of approximately RMB284.5 million recorded in 2021, which was mainly attributable to change in revenue structure and impairment loss of goodwill during the year.

Loss on Credit Impairment

Loss on credit impairment of the Group increased to approximately RMB45.9 million in 2022 from approximately RMB3.8 million in 2021. For the years ended 31 December 2021 and 2022, loss on credit impairment as a percentage of total revenue accounted for approximately 0.3% and 3.6%, respectively. The increase in loss on credit impairment was mainly due to the increase in the bad debts provision of accounts receivable during the year under review.

Impairment Loss of Assets

Impairment loss of assets of the Group increased to approximately RMB37.6 million in 2022 from approximately RMB10.1 million in 2021. For the years ended 31 December 2021 and 2022, impairment loss of assets as a percentage of total revenue accounted for approximately 0.7% and 3.0%, respectively. The increase in impairment loss of assets was primarily due to the increase in impairment loss of goodwill.

Income Tax

Income tax expenses of the Group decreased by approximately 40.8% to approximately RMB21.3 million in 2022 from approximately RMB36.0 million in 2021, which was mainly attributable to decrease in total profit for the year under review.

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 2022. The applicable tax rate for other subsidiaries in Mainland China were 20% and 25% for 2022.

Management Discussion and Analysis (Continued)

Net Profit

Based on the aforesaid reasons, the net profit decreased by approximately 34.7% from approximately RMB248.5 million in 2021 to approximately RMB162.2 million in 2022. Net profit margin decreased to approximately 12.9% for the year under review from approximately 18.2% for the year ended 31 December 2021, which was mainly attributable to the decrease in revenue and the increase in impairment loss of goodwill during the year under review.

Net Profit Attributable to Owners of the Parent

The Group's net profit attributable to owners of the parent amounted to approximately RMB161.0 million in 2022, representing a decrease of approximately 34.6% from approximately RMB246.1 million in 2021. In 2022, basic earnings per share amounted to approximately RMB0.18, representing a decrease from that of 2021.

Financial Resources and Capital Structure

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB77.0 million, accounts receivable of approximately RMB1,308.7 million, accounts payable of approximately RMB374.4 million, and outstanding borrowings of approximately RMB598.2 million. As at 31 December 2022, the above cash and cash equivalents included approximately RMB0.2 million equivalents of Hong Kong dollars.

As at 31 December 2021, the Group had cash and cash equivalents of approximately RMB65.9 million, accounts receivable of approximately RMB1,026.5 million, accounts payable of approximately RMB378.8 million, and outstanding borrowings of approximately RMB303.5 million. As at 31 December 2021, the above cash and cash equivalents included approximately RMB0.8 million equivalents of Hong Kong dollars.

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 and issued a total of 224,460,000 H Shares. As at 31 December 2022, the outstanding borrowings of the Group included total short-term borrowings of approximately RMB182.6 million, total non-current liabilities of approximately RMB218.1 million due within one year and total long-term borrowings of approximately RMB197.5 million. The Group will promptly repay the aforesaid borrowings when due.

Total Assets

As at 31 December 2022, the total assets of the Group were approximately RMB3,595.5 million, representing an increase of approximately RMB373.5 million or approximately 11.6% from those as at 31 December 2021, which was mainly attributable to increase in accounts receivable at the end of the period.

Total Liabilities

As at 31 December 2022, the total liabilities of the Group were approximately RMB1,122.2 million, representing an increase of approximately RMB261.1 million or approximately 30.3% from those as at 31 December 2021, mainly because of increase in bank borrowings at the end of the period.

Total Equity

As at 31 December 2022, the total equity of the Group was approximately RMB2,473.3 million, representing an increase of approximately RMB112.4 million from that as at 31 December 2021, which was mainly attributable to 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 2022, the Group's gearing ratio was 17.4%, representing an increase of 8.3 percentage points as compared to 9.1% as at 31 December 2021, which was mainly attributable to the increase in total borrowings at the end of the year.

Management Discussion and Analysis (Continued)

Employees, Remuneration Policies and Pension Schemes

As at 31 December 2022, the Group incurred total staff costs of approximately RMB109.1 million for 1,369 employees, representing a decrease of approximately RMB0.7 million or approximately 0.7% as compared to the same period of 2021, with an insignificant change.

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.

Pursuant to the relevant labour laws, rules and regulations in the PRC, the Group participates in the basic pension insurance scheme (the "**Basic Pension Insurance Scheme**") formulated by the government of the PRC for all employees of the Group. The Group made contributions to the Basic Pension Insurance Scheme at a fixed rate of 16% of the payment base, which is calculated with reference to the overall average income of employed persons announced by the government from time to time, for the year ended 31 December 2022 (2021: 16%). Employees were required to make contributions to the Basic Pension Insurance Scheme at a fixed rate of 8% of the said payment base for the year ended 31 December 2022 (2021: 8%). Upon reaching the statutory retirement age, the employee will receive a basic pension on a monthly basis. For the year ended 31 December 2022, the basic pension insurance premium paid by the Group amounted to approximately RMB9.3 million (2021: RMB8.4 million). The increase over the previous year was mainly due to the increase in the payment base during the year.

There is no forfeited contribution under the Basic Pension Insurance Scheme which may be used by the Group as employer to reduce the contribution payable in the future years.

For the year ended 31 December 2022, the Group had no defined benefit plan.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Haijun (張海軍), aged 70, is the founder of the Company, executive Director and chairman of our Group who is responsible for the overall business development strategies of our Group. He is the chairman of Strategy Committee. Mr. Zhang has been a Director, chairman of the Board and the legal representative of our Company since its establishment on 9 April 2001. Mr. Zhang had also been the general manager of our Company since its establishment until July 2015. He is a qualified senior economist and engineer in the PRC. He graduated from Hebei Province Agriculture Broadcasting Television School* (河北省農業廣播電視學校) of the PRC with a diploma in agriculture in October 1993. He graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) of the PRC with a diploma in corporate management in July 1995.

Mr. Zhang was engaged in the management of manufacturing enterprises in the PRC prior to founding our Group. In March 1990, Mr. Zhang, together with Mr. Zhang Xiaosuo (張小鎖) and other individuals, established Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠), a collectively owned enterprise in the PRC engaged in the manufacture of rolling steel products, in which Mr. Zhang served as the legal representative and factory director and was responsible for overall business and factory management. From May 1993 to July 1998, he was the chairman and general manager of Gaocheng City Yichen Industrial Trading Co., Ltd.* (藁城市翼辰工貿公司), which was principally engaged in manufacturing of different metal products and trading of industrial goods, where he was responsible for its overall business and corporate management.

From May 1989 to March 2001, Mr. Zhang was the deputy supervisor of Nanshangzhuang Village Committee of Lianzhou Township, Gaocheng City* (藁城市廉州鎮南尚莊村委會) of the PRC. He was a representative of Gaocheng City People's Congress* (藁城市人民代表大會) of the PRC, Hebei Province People's Congress* (河北省人民代表大會) of the PRC and the 12th and 13th Shijiazhuang City People's Congress* (石家莊市第十二屆及第十三屆人民代表大會) of the PRC. He was also the deputy chairman of Shijiazhuang City Private Enterprises Association* (石家莊市私營企業協會) from 2006 to 2015, the chairman of Gaocheng District Private Enterprises Association* (藁城區私營企業協會) from 2006 to 2015 and a standing member and the deputy chairman of the third council of Hebei Province Private Enterprises Association* (河北省私營企業協會第三屆理事會). He was a member of the Standing Committee of Gaocheng People's Congress* (藁城區人民代表大會常務委員會).

Mr. Wu Jinyu (吳金玉), aged 53, is the executive Director of the Company and chief financial officer of our Group who is responsible for the overall day-to-day financial management of our Group. He is a member of Remuneration Committee, Nomination Committee and Strategy Committee. Mr. Wu has been appointed as a Director since our Company's establishment on 9 April 2001. He is a qualified senior accountant in the PRC. He graduated from Shijiazhuang City Technology Cadre Education Institute in the PRC with a diploma in accounting in July 1999. He then graduated from Hebei Province Chinese Accounting Correspondence School* (河北省中華會計函授學校) in the PRC with a part time diploma in accounting in June 2002.

From March 1995 to April 2001, Mr. Wu was an accountant of Gaocheng City Yichen Industrial Trading Co., Ltd. and was responsible for handling accounting matters. He had served as the head of finance of our Company responsible for the overall financial management and reporting matters since April 2001 and was appointed as the chief financial officer in January 2012.

Biographical Details of Directors, Supervisors and Senior Management (Continued)

Mr. Zhang Lihuan (張力歡), aged 40, is the executive Director of the Company. Mr. Zhang joined our Group in August 2009 and served as manager of the welding material business division from August 2009 to December 2022 and was appointed as a Director on 27 July 2015. He served as the general manager of Hebei Yichen Welding Co., Ltd. (河北翼辰焊業有限公司) in January 2023, responsible for the overall day-to-day management. Mr. Zhang completed an online diploma course in business administration at Central China Normal University (華中師範大學) in the PRC in July 2015, and served as a representative of the People's Congress of Gaocheng District, Shijiazhuang City, Hebei Province in July 2021.

Mr. Zhang Chao (張超), aged 37, is the executive Director of the Company and the secretary to the Board who is responsible for overseeing the overall business operation and Board secretarial work of our Group. He is a member of Corporate Governance Committee. Mr. Zhang joined our Group in January 2012 as secretary to the Board and was appointed as a Director on 27 July 2015, and served as a joint company secretary of the Company from December 2015 to January 2023. Mr. Zhang graduated from University of Shanghai for Science and Technology (上海理工大學) in the PRC with a bachelor's degree in thermal energy and power engineering in July 2009.

Ms. Ma Xuehui (馬學輝), aged 41, is the executive Director of the Company who is responsible for the day-to-day management of the Group's quality management department and quality inspection centre. Ms. Ma joined the Company in May 2002 and has served successively as a quality management staff, and deputy chief and chief of quality management department. She has been the chief of quality inspection centre and deputy chief engineer of the Group since December 2015 and January 2018, respectively. Ms. Ma graduated from Hebei University of Engineering (河北工程大學) in June 2020 with a bachelor's degree in mechanical design, manufacturing and automation. She has been a qualified engineer in the PRC specialising in machinery since December 2020.

NON-EXECUTIVE DIRECTOR

Ms. Zheng Zhixing (鄭知行), aged 38, is the non-executive Director of the Company. She was appointed as the non-executive Director of the Company on 13 September 2022. Ms. Zheng is a Chartered Financial Analyst (CFA) and graduated from Southern Illinois University, USA in August 2009 with a master's degree in economics and finance. From February 2012 to June 2014, Ms. Zheng worked in the research centre of Zero2IPO Group (清科集團). Ms. Zheng joined Beijing Infrastructure Investment Co., Ltd* (北京市基礎設施投資有限公司) in July 2014. She currently serves as a senior investment manager of the investment and development headquarters. Ms. Zheng served as a director of Beijing Zhongguancun Microcredit Co., Ltd* (北京市中關村小額貸款股份有限公司) since December 2021.

Biographical Details of Directors, Supervisors and Senior Management (*Continued*)**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Mr. Jip Ki Chi (葉奇志), aged 53, is the independent non-executive Director of the Company, the chairman of Audit Committee and Corporate Governance Committee and a member of Remuneration Committee. Mr. Jip was appointed as an independent non-executive Director on 30 November 2015. He was admitted as a Certified Practising Accountant of the Australian Society of Certified Practising Accountants (currently known as CPA Australia) in October 1997. He obtained his qualification as a fellow member of Hong Kong Institute of Certified Public Accountants in October 2007. Mr. Jip graduated from Queensland University of Technology, Australia with a bachelor's degree of business in accountancy in March 1994. He then graduated from University of Adelaide, Australia with a master's degree in business administration in August 2008.

The table below summarises Mr. Jip's working experience in the past several years:

Period of time	Name of employer	Principal business activities of employer	Office	Principal functions
October 2005 to April 2007	Total Sino Limited	Design, engineering and manufacturing of a wide range of children entertainment products	Financial controller	Preparation of monthly consolidated financial and management accounts and budgets, control and update of financial and accounting systems
June 2007 to November 2010	Aceso Life Science Group Limited (stock code: 474; formerly known as Hao Tian Development Group Limited)	Money lending business, trading of securities investment, trading of futures and trading of commodities business	Financial controller, company secretary, qualified accountant and authorized representative	Liaison and communication with the Stock Exchange and SFC, liaison with internal and external auditors and legal advisors, preparation of monthly consolidated financial and management accounts and budgets, monitoring and update of financial and accounting systems
November 2010 to August 2012	Zhong Da Mining Limited	Mining of iron ore in the PRC	Chief financial officer and company secretary	Preparation of financial reporting and internal control and compliance with applicable laws of Hong Kong
September 2012 to November 2013	Hui Xiang Group	Mining and financial services	Chief financial officer and company secretary	Preparation of financial reporting and internal control and compliance with applicable laws of Hong Kong

From November 2013 to November 2022, Mr. Jip has been an independent non-executive director of China MeiDong Auto Holdings Limited (stock code: 1268), whose shares are listed on the Main Board of the Stock Exchange. Since September 2014, Mr. Jip has been serving as the chief financial officer and company secretary of Yeah Yeah Group Holdings Limited (formerly known as Sun Entertainment Group Limited) (stock code: 8082), whose shares are listed on the Growth Enterprise Market of the Stock Exchange.

Biographical Details of Directors, Supervisors and Senior Management (Continued)

Mr. Wang Fujun (王福聚), aged 62, is the independent non-executive Director of the Company, the chairman of Nomination Committee and a member of Audit Committee and Corporate Governance Committee. Mr. Wang was appointed as an independent non-executive Director on 31 May 2022. He is a senior engineer in the PRC. He graduated from School of Distance Learning of Southwest Jiaotong University (西南交通大學網絡教育學院) with a bachelor's degree in mechanical design, manufacturing and its automation in August 2007.

From August 1981 to October 2003, Mr. Wang worked successively as an apprentice, technician, head of safety chamber, deputy superintendent, superintendent and deputy secretary of the Party Committee in the Jinan works section of Jinan Branch of Jinan Railway Administration* (濟南鐵路局濟南分局). From November 2003 to November 2008, Mr. Wang worked successively as the head of public works branch, head of Jinan lands branch, deputy head of construction project management centre and deputy head of engineering management office in Jinan Branch of Jinan Railway Administration* (濟南鐵路局濟南分局). From December 2008 to September 2010, Mr. Wang worked successively as an engineer and deputy head of the preparation group in Dezhou-Dajawa Railway Company Limited* (德大鐵路有限公司) and deputy general manager of Delongyan Railway Co., Ltd* (德龍煙鐵路有限責任公司). From October 2010 to August 2020, Mr. Wang worked successively as the superintendent and deputy secretary of the Party Committee of the Jinan works section of Jinan Railway Administration* (濟南鐵路局), superintendent and deputy secretary of the Party Committee of the Zibo works section, head of the department of People's Armed Forces and combat readiness centre and head of security department of China Railway Jinan Group Company Limited* (中國鐵路濟南局集團有限公司).

From October 2020 to October 2021, Mr. Wang was a director of Shandong Jitie Machinery Equipment Group Company Limited* (山東濟鐵機務裝備集團有限公司), Shandong Jitie Engineering Construction Group Company Limited* (山東濟鐵工程建設集團有限公司) and Jinan Railway Materials Industrial Group Company Limited* (濟南鐵路物資工業集團有限公司).

Mr. Zhang Ligu (張立國), aged 65, is the independent non-executive Director of the Company, the chairman of Remuneration Committee, and a member of Audit Committee, Nomination Committee and Strategy Committee. Mr. Zhang was appointed as an independent non-executive Director on 30 November 2015. He is a senior engineer in the PRC. He graduated from Northern Jiaotong University (北方交通大學) (currently known as Beijing Jiaotong University (北京交通大學)) in the PRC with a bachelor's degree in railway architecture in January 1982.

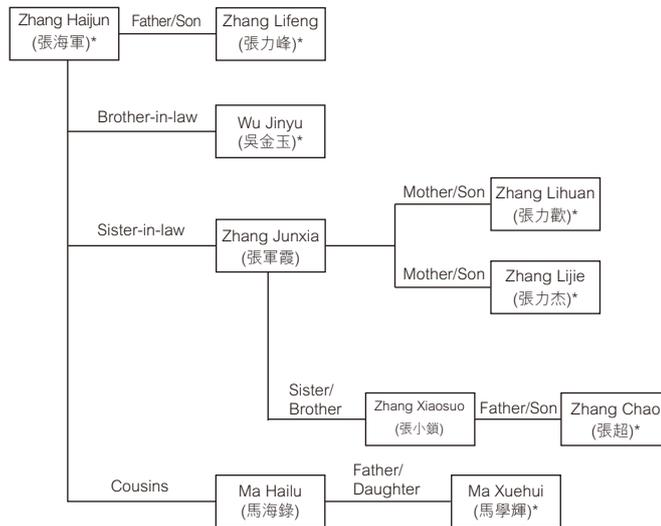
From February 1982 to June 2004, Mr. Zhang had successively been an engineer, senior engineer and head of the railway division of the Professional Design Institute of the Ministry of Railways (鐵道部專業設計院). From July 2004 to June 2006, Mr. Zhang had successively headed the railway academy and technology section of Railway Engineering Consulting Group Co., Ltd. (中鐵工程設計諮詢集團有限公司). From July 2006 to March 2018, Mr. Zhang had been a deputy chief engineer of Railway Engineering Consulting Group Co., Ltd. (mainly engaged in major integrated survey and design consultation), taking charge of railway design and overall business operation.

Since December 2017, Mr. Zhang has been the independent director of Zhejiang Tiantie Industry Co., Ltd. (浙江天鐵實業股份有限公司) (the shares of which are listed on the ChiNext of the Shenzhen Stock Exchange, stock code: 300587). From April 2018 to April 2022, Mr. Zhang was a special expert of CCC Railway Consultants Group Co., Ltd (中交鐵道設計研究總院有限公司). Since April 2022, Mr. Zhang has been a special expert of Tieke Design Co., Ltd (鐵科設計有限公司).

Biographical Details of Directors, Supervisors and Senior Management (Continued)

FAMILY RELATIONSHIP AMONG MEMBERS OF THE BOARD AND SENIOR MANAGEMENT

As at the date of this annual report, the family relationship among the members of the Board and senior management is as follows.



Note: The individuals with * mark are Directors and/or senior management.

Save as disclosed above, none of the Directors and senior management has any family relationship with each other.

Biographical Details of Directors, Supervisors and Senior Management (Continued)

SUPERVISORS

Mr. Guan En (管恩), aged 35, is a Supervisor of the Company and the chairman of Supervisory Board since July 2019. He graduated from Hebei University of Science and Technology* (河北科技大學) with a bachelor's degree in automation in 2013. From July 2013 to May 2015, Mr. Guan worked as a technician at Shijiazhuang Kelin Electric Company Limited* (石家莊科林電氣股份有限公司). Mr. Guan joined the Group in June 2015 as an electronics engineer. Mr. Guan is experienced in electronic engineering practices.

Mr. Liu Jianbin (劉建賓), aged 45, is a Supervisor of the Company since July 2019. He graduated from Hebei Institute of Technology* (河北理工學院) in 2000, majoring in thermal engineering. From June 2000 to March 2008, Mr. Liu worked as a production technician and technical professional of Gaocheng Electric Components Factory* (藁城市電工構件廠). Mr. Liu joined the Group in March 2008 as a deputy manager for machine repair workshop and is currently the director of the technical department. Mr. Liu has extensive experience in corporate management.

Mr. Hu Hebin (胡合斌), aged 46, is a Supervisor of the Company since November 2018. Mr. Hu was elected at the staff representative meeting of the Company held on 15 November 2018. He served as a Supervisor of the Company on 6 December 2018. Since January 2008, he has been serving as the chief engineer of the welding material business division of the Group, responsible for the research and development, advancements in production method and quality control of flux cored wire products. He graduated from China University of Mining and Technology (中國礦業大學) with a bachelor's degree in materials science and engineering in July 1999 and received accreditation as a senior metallurgical engineer on 22 April 2013.

From August 1999 to July 2002, he was a quality controller of Zibo Feile Welding Company Limited* (淄博飛樂焊業有限公司), responsible for the quality control of flux cored wire products and participating in the research and development of new products.

From August 2002 to July 2004, he was the deputy head of the technical department of Qingdao Yizhong Welding Company Limited* (青島頤中焊業有限公司), responsible for the product research and development and quality control of flux cored wire.

From August 2004 to October 2006, he was the chief engineer of Hebei Yichen New Welding Materials Company Limited* (河北翼辰新型焊接材料有限公司), responsible for the research and development, advancements in production method and quality control of flux cored wire products.

From November 2006 to December 2007, he was the chief engineer of Ningbo Haobang Welding Company Limited* (寧波昊邦焊業有限公司), responsible for the research and development, formulation of production method and quality control of flux cored wire products.

He has served as the chief engineer of the welding material department of Hebei Yichen Industrial Group Corporation Limited from January 2008 to January 2023. He serves as the chief engineer of Hebei Yichen Welding Co., Ltd. (河北翼辰焊業有限公司) from February 2023, mainly responsible for the research and development, advancement in production process and quality control of welding wire products.

Biographical Details of Directors, Supervisors and Senior Management (Continued)

SENIOR MANAGEMENT

Mr. Zhang Lifeng (張力峰), aged 42, is the Company's general manager. Mr. Zhang was appointed as the general manager of the Company on 24 June 2020. He joined the Group in August 2003 as our deputy general manager, responsible for the Company's overall business and operations management. Mr. Zhang completed an online diploma course in business administration at Central China Normal University (華中師範大學) in the PRC in July 2015. Mr. Zhang served as the chairman of the board of Xingtai Juneng Railway Electrical Equipment Co. Ltd.* (邢台炬能鐵路電氣器材有限公司) in August 2019 and the legal representative of Hebei Yichen Welding Co., Ltd. (河北翼辰焊業有限公司) in January 2023.

Mr. Zhang Fengxuan (張風選), aged 69, is the Company's deputy general manager who is responsible for the overall day-to-day management of production safety and human resources of our Group. Mr. Zhang is a mechanical engineer in the PRC. He graduated from Shijiazhuang City Technology Cadre Education Institute* (石家莊市科技幹部教育學院) in the PRC with a diploma in machinery in December 2001.

From August 1996 to August 2002, Mr. Zhang was the factory head of Hebei Province Gaocheng City Lianzhou Rolling Mill* (河北省藁城市廉州軋鋼廠) and was responsible for its overall production. He joined our Group in September 2002 as a manager of the welding material business division and has been appointed as our deputy general manager since January 2012.

Mr. Zhang Lijie (張力杰), aged 43, is the Company's deputy general manager who is responsible for the overall day-to-day management of procurement of our Group. He graduated from Shijiazhuang Vocational and Technology Institute* (石家莊職業技術學院) in the PRC with a diploma in modern secretary in July 2003.

Mr. Zhang joined our Group as the office supervisor of our welding material business division in August 2003. He became the supervisor of our supplies department in December 2009 and has been promoted to our deputy general manager since January 2012.

Mr. An Baoyun (安保雲), aged 63, is a deputy general manager of the Company who is responsible for the overall day-to-day management of the Group's Beijing office. Mr. An joined the Group in February 2004, and successively worked as a business officer at the market department and head of the Beijing office. He was promoted to deputy general manager in December 2019.

REPORT OF THE BOARD OF DIRECTORS

PRINCIPAL BUSINESS

For the year ended 31 December 2022, the Company is principally engaged in research and development, manufacturing and sales of rail fastening system products, flux cored wire products and railway sleeper products.

SHARE CAPITAL

As of 31 December 2022, the total share capital of the Company was RMB448,920,000, divided into 897,840,000 Shares (including 673,380,000 Domestic Shares and 224,460,000 H Shares) of nominal value of RMB0.50 each. Details of movements of the Company's share capital during the year of 2022 are set out in Note 5(l) 33 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company and its subsidiaries did not purchase, sell or redeem any of the listed securities of the Company during the year ended 31 December 2022.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2022.

EQUITY-LINKED AGREEMENT

The Company did not enter into any equity-linked agreement, nor did any equity-linked agreement exist during the year ended 31 December 2022.

PERMITTED INDEMNITY PROVISION

The Company has purchased appropriate liability insurance for its Directors, Supervisors and senior management. The permitted indemnity provisions are set out in such liability insurance.

Report of the Board of Directors (Continued)

RISK FACTORS

The Group's current operation and development are under certain influence of individual factors, mainly including:

1. Risk of Market Competition

Increase in demand of China's railway transportation has led to a significant increase in demand of the rail fastening system. Growth in rail fastening system market has caused further expansion in production capacity of both Sino-foreign equity joint ventures and domestic new suppliers of rail fastening system. If our current or potential competitors offer services or products comparable or superior to those we offer at the same or lower prices, develop more advanced technology and upgrade their capacity, or adapt more quickly than we do to evolving industry trends or changing market conditions, we may lose our customers to our competitors. The pricing, recognition and loyalty to our brand of products and the financial and technical resources allocated to our products may be adversely affected if competing rail fastening systems, domestic or foreign, gain a competitive advantage. The Company shall actively respond to the market challenges and utilise its advantages with quality products and professional services for markets and customers, and hence further consolidating and enhancing its industry position.

2. Progress of Railway Construction Projects and Timing of Final Inspection and Acceptance of the Relevant Railway Construction Projects

Revenue from our rail fastening system products are recognised when our customers have completed inspection and accepted the products and recovery of the related receivables is reasonably assured. We are generally required to provide a specified amount or a certain percentage with reference to the tender

amount as deposit (the "Tender Deposit") when we submit tenders, and a deposit of 1% to 10% of our contracted amount (generally in the form of letter of guarantee issued by banks) as performance deposit with our customers (the "Deposit Guarantee") when we enter into contracts with them. The Tender Deposit will be returned to us upon the publication of the results of the tender irrespective of whether we win the tender. The Deposit Guarantee is generally released or payable to us by our customers following the final inspection and acceptance of the relevant railway construction projects. Our customers generally withhold 5% to 20% of each invoiced amount (the "Retention Money") for the project and release to us after deducting any warranty claims, if any, upon expiry of the warranty period. The warranty period may take various forms: (i) six months to two years beginning from the date of completion of the customers' railway construction projects; or (ii) until the completion of the customers' railway construction projects. As such, our results of operation, trade receivables and other receivables are closely tied to the progress of the railway construction projects and the timing of final inspection and acceptance of the relevant railway construction projects. Any changes to the progress of the projects and the timing of the final inspection and acceptance of our products would affect our business, financial condition and results of operation. The Company will actively catch on the progress of railway construction projects and adjust its delivery arrangement based on such progress so as to minimise any loss arising from delay of construction.

Report of the Board of Directors (Continued)

RELATIONSHIP WITH EMPLOYEES

Since employees are the foundation for development, the Group adheres to the “people-oriented” principle in its human resources management, offers equal employment opportunities and prohibits any occupational discrimination. The Group reviews its remuneration policies of employees on a regular basis and awards bonuses and commission to employees based on their annual performance evaluation. Efforts have also been made to help employees in the aspects of housing, transportation and safety and health, etc.

In accordance with the relevant labour laws, regulations and rules of the PRC, the Group participates in the Basic Pension Insurance Scheme (the “**Basic Pension Insurance Scheme**”) established by the PRC government for all its employees. For the year ended 31 December 2022, the Group makes contributions to the Basic Pension Insurance Scheme at a fixed rate of 16% of the contribution base (2021: 16%), which is calculated based on the average salary of the overall employees announced by the government from time to time. For the year ended 31 December 2022, employees are required to make contributions at a fixed rate of 8% of the contribution base to the Basic Pension Insurance Scheme (2021: 8%). After reaching the statutory retirement age, employees will receive a basic pension on a monthly basis. For the year ended 31 December 2022, the Group’s contributions to basic pension premiums amounted to approximately RMB9.3 million (2021: RMB8.4 million). The increase from the last year was mainly due to the increase in the contribution base of basic pension premiums during the year.

There are no forfeited contributions under the Basic Pension Insurance Scheme available to the Group (as an employer) to reduce contributions payable in future years.

The Group had no defined benefit plan for the year ended 31 December 2022.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group strives to build and maintain long term and strong relationships with customers. The Company’s business department has from time to time conducted a customer satisfaction survey with a view to understand and fulfill customers’ demands and enhance their satisfaction. For suppliers, the Group’s objective is to keep mutually beneficial and win-win partnerships with all suppliers. At the same time, the Group regularly evaluates the performance of our suppliers.

BUSINESS REVIEW

A fair review of the business of the Group during the year ended 31 December 2022, a discussion about the Group’s future business development and an analysis of the Group’s performance using key financial performance indicators are set out in the sections headed “Business Review” and “Performance Analysis and Discussion” in the “Management Discussion and Analysis” in this annual report.

For information about the Group’s environmental policies and performance, please refer to “Environmental, Social and Governance Report” in this annual report.

Report of the Board of Directors (Continued)

In addition, a description of the principal risks and uncertainties facing the Group and a discussion of the Group's key relationships with its employees, customers and suppliers, which have a significant impact on the Group and are the factors determining the Group's success, are included in the sections headed "Risk Factors", "Relationship with Employees" and "Relationship with Customers and Suppliers" in this "Report of the Board of Directors".

All the aforementioned sections and parts in this annual report constitute a part of the "Business Review" contained in the "Report of the Board of Directors".

For the financial year ended 31 December 2022, the Group has strictly complied with relevant laws and regulations which have material impact on the Company, and did not receive any punishment from the relevant regulatory authorities.

Future Prospects

According to the working meeting of China State Railway Group Co., Ltd., in 2023, it will focus on enhancing the overall function and efficiency of railway network, emphasising the improvement in quality, energy and efficiency, promoting national priorities projects such as Sichuan-Tibet Railway in a high-quality manner, and completing the national railway investment task in an all-round manner. More than 3,000 km of new lines will be put into operation, including 2,500 km of high-speed railways.

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 states for the first time that China will be the first to achieve a 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 span 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.

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 towards the goal of becoming a strong power, carry out research and development actively and stimulate innovation, participate in the formulation and revision of standards, and strive to improve product quality and service standards, with the aim of providing high-standard, quality rail fastening system products and railway sleeper products. This will facilitate key projects such as the Sichuan-Tibet Railway, the ShanghaiChongqing-Chengdu High-speed Railway, 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.

Report of the Board of Directors (Continued)

RESPONSE TO THE PANDEMIC

In 2022, the pandemic in China was characterised by high infection rate, fast and strong hidden spreading, difficult prevention and control, as well as relatively low toxicity. The situation of pandemic prevention and control is complex with increased difficulty. Facing the severe situation of pandemic prevention and control, the Group has put the protection of its employees' safety and health at the first place, while closely monitoring the situation of the pandemic, strictly executing various pandemic prevention and control work, implementing complete disinfection at production and office premises and conducting daily health check and other prevention and control measures. Meanwhile, the Group actively communicated with its customers and suppliers in order to make timely adjustments to its manufacturing and operation plans, which minimised the adverse impact from the pandemic.

On 7 December 2022, the State Council solemnly issued 10 measures for the pandemic prevention. Since then, the pandemic restrictions have been fully lifted in China.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "AGM") will be held on Thursday, 25 May 2023. Shareholders may refer to the circular, notice and form of proxy of the AGM despatched by the Company for details regarding the meeting.

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.0501 per share (tax inclusive) for the year ended 31 December 2022 (the "2022 Final Dividend") with an aggregate net amount of RMB44,981,784 to the Shareholders whose names appear on the Company's register of members as at Thursday, 8 June 2023, subject to the approval by the Shareholders at the forthcoming AGM to be held on Thursday, 25 May 2023. Subject to the passing of the relevant resolution at the AGM, the 2022 Final Dividend is expected to be paid on or around 20 July 2023.

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"), pursuant to which the Company may declare and distribute dividends to its Shareholders. Any decision to declare and pay dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year shall be subject to Shareholders' approval. The Board will review the Dividend Policy from time to time in light of our results of operation, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, our general business conditions and strategies, the payment of cash dividends by our subsidiaries to us, and other factors the Board may deem relevant in determining whether dividends shall be declared and paid.

Report of the Board of Directors (Continued)

WITHHOLDING AND PAYMENT OF INCOME TAX ON BEHALF OF OVERSEAS SHAREHOLDERS

According to the articles of association of the Company, dividends shall be denominated and declared in Renminbi. Dividends on domestic shares shall be paid in Renminbi and dividends on H shares shall be paid in foreign currencies. The relevant exchange rate shall be the average median rate as announced by the People's Bank of China for one calendar week prior to the date of declaration of dividends.

In accordance with tax laws and relevant requirements under taxation regulatory authorities of the PRC, the Company is required to withhold 10% enterprise income tax when it distributes the 2022 Final Dividend to all non-resident enterprise shareholders (including HKSCC Nominees Limited, other nominees, trustees or other entities and organisations, who will be deemed as non-resident enterprise shareholders) whose names appear on the H share register of members of the Company on Thursday, 8 June 2023.

Pursuant to the "Notice on the Tax Policies Related to the Pilot Program of Interconnection Mechanism for Transactions in the Shanghai-Hong Kong Stock Connect" (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) (the "**Shanghai-Hong Kong Stock Connect Tax Policy**") jointly issued by the Ministry of Finance of the PRC, the State Taxation Administration and China Securities Regulatory Commission, the dividends derived from the investment by a domestic corporate investor in stocks listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect will be included in its total income and subject to enterprise income tax according to the law. In particular, dividends received by resident enterprises in the Mainland which hold H shares for at least 12 consecutive months shall be exempted from enterprise income tax according to the law. In respect of the dividends received by domestic corporate investors, H share companies listed on the Stock Exchange will not withhold income tax on dividends for such corporate investors. The tax payable shall be reported and paid by the enterprises themselves.

As such, when distributing the 2022 Final Dividend to domestic corporate investors whose names appear on H Share register of members of the Company provided by China Securities Depository and Clearing Corporation Limited ("**CSDC**") as at Thursday, 8 June 2023, the Company shall not withhold any income tax on dividend for domestic corporate investors. Instead, the tax payable shall be reported and paid by the enterprises themselves.

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法》), the Implementation Regulations of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), the Tentative Measures on Withholding and Payment of Individual Income Tax (《個人所得稅代扣代繳暫行辦法》), the Shanghai-Hong Kong Stock Connect Tax Policies (《滬港通稅收政策》) and other relevant laws and regulations and based on the Company's consultation with relevant PRC tax authorities, the Company is required to withhold and pay 20% individual income tax for the Company's individual H Shareholders whose names appear on the H Share register of members of the Company (the "**Individual H Shareholders**").

Pursuant to the Shanghai-Hong Kong Stock Connect Tax Policy, for dividends received by domestic individual investors from the investment in H Shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, the H share companies listed on the Stock Exchange shall withhold individual income tax at a rate of 20%. For dividends received by domestic securities investment funds from the investment in shares listed on the Stock Exchange through Shanghai-Hong Kong Stock Connect, it is subject to the individual income tax based on the same requirements in respect of such domestic individual investors.

As such, when distributing the 2022 Final Dividend pursuant to the register of members of domestic individual investors (including domestic securities investment funds) as holders of H Shares of the Company as at Thursday, 8 June 2023 provided by CSDC, the Company shall withhold and pay individual income tax in accordance with the requirements mentioned above on behalf of the investors.

Report of the Board of Directors (Continued)

Pursuant to the “Notice on Matters concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No. 045” (《關於國稅發[1993]045號檔廢止後有關個人所得稅徵管問題的通知》) (the “**Tax Notice**”) issued by the State Taxation Administration and the letter titled “Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies” (有關香港居民就內地企業派發股息的稅務安排) issued by the Stock Exchange, the overseas resident individual shareholders of the shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions of the tax arrangements between the countries where they reside and China and the tax arrangements between Mainland China and Hong Kong (Macao). The Company shall identify the residential status of Individual H Shareholders according to their registered addresses on the H Share register of members of the Company as at Thursday, 8 June 2023 (the “**Registered Address**”). The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the Individual H Shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the Individual H Shareholders or any disputes over the withholding mechanism or arrangements. Details of the arrangements are as follows:

- For Individual H Shareholders who are Hong Kong or Macao residents or residents of another country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these Individual H Shareholders in the distribution of the final dividend;
- For Individual H Shareholders who are residents of a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of less than 10%, the Company will temporarily withhold and pay individual income tax at the rate of 10%

on behalf of these Individual H Shareholders in the distribution of the final dividend. If relevant Individual H Shareholders would like to apply for a refund of the excess amount of tax withheld and paid, the Company will handle, on their behalf, the applications for tax preferential treatments under the Tax Notice. Qualified shareholders shall submit in time a letter of entrustment and all application materials as required under the Tax Notice to the Company’s H share registrar, Computershare Hong Kong Investor Services Limited, in a timely manner. The Company will then submit the above documents to competent tax authorities for their examination, and if and when approved, the Company will assist in refunding the excess amount of tax withheld and paid;

- For Individual H Shareholders who are residents of a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the effective tax rate stipulated in the relevant tax treaty on behalf of these Individual H Shareholders in the distribution of the final dividend; and
- For Individual H Shareholders who are residents of a country (region) which has entered into a tax treaty with the PRC stipulating a tax rate of 20%, or a country (region) which has not entered into any tax treaties with the PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of these Individual H Shareholders in the distribution of the final dividend.

If the domicile of an Individual H Shareholder is not the same as the Registered Address or if the individual H Shareholder would like to apply for a refund of the final excess amount of tax withheld and paid, he or she shall notify and provide relevant supporting documents to the Company on or before

Report of the Board of Directors (Continued)

Thursday, 1 June 2023. Upon examination of the supporting documents by relevant tax authorities, the Company will comply with the guidelines of the tax authorities to implement regulations and arrangements related to withholding and payment. Individual H Shareholders carry out the relevant procedures on their own or through representatives in accordance with the relevant requirements under the “Administrative Measures on Preferential Treatment Entitled by Nonresidents under Tax Treaties (Guo Shui Fa [2015] No. 60)” (《非居民納稅人享受稅收協定待遇管理辦法》(國稅發 [2015]60號)) if they fail to provide the relevant supporting documents to the Company before the time limit stated above.

Shareholders are recommended to consult their tax advisers regarding the PRC, Hong Kong and other tax implications arising from their holding and disposal of the H Shares of the Company.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the list of Shareholders who are entitled to attend and vote at the AGM to be held on Thursday, 25 May 2023, the register of members of the Company will be closed from Wednesday, 26 April 2023 to Thursday, 25 May 2023 (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, 25 May 2023 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 Tuesday, 25 April 2023 (Hong Kong time) for share transfer registration.

In order to determine the list of Shareholders who are entitled to the 2022 Final Dividend, the register of members of the Company will be closed from Friday, 2 June 2023 to Thursday, 8 June 2023 (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, 8 June 2023 are all entitled to the 2022 Final Dividend. Holders of H Shares of the Company intended to receive the 2022 Final Dividend 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 Thursday, 1 June 2022 (Hong Kong time) for share transfer registration.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the applicable laws and regulations of the PRC where the Company is incorporated.

NON-COMPETE UNDERTAKING

The Controlling Shareholders of the Company have given the irrevocable non-compete undertaking (as defined in the prospectus of the Company dated 9 December 2016) in favour of the Company (the “**Non-compete Undertaking**”). Each of the Controlling Shareholders has hereby confirmed and declared that, during the financial year ended 31 December 2022, he/she had complied with the Non-compete Undertaking without any breach thereof.

All the independent non-executive Directors have reviewed the matters relating to the enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Controlling Shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2022, the sales revenue from our five largest customers and the largest customer represented 66.42% and 19.79% of the Group’s operating revenue, respectively.

During such period, the procurement expenses to our five largest suppliers and the largest supplier represented 41.77% and 13.32% of the Group’s total procurement expenses, respectively.

Report of the Board of Directors (Continued)

To the knowledge of the Directors, none of the Directors of the Company, any of their close associates, or any Shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

PROGRESS OF INVESTMENT PROJECTS

As at 31 December 2022, the construction of production workshop in our new production facilities and warehouse had been completed, relevant production equipment was already being installed and debugged, and some production workshops had commenced operation. The construction of main structures of our new office building has been put into operation.

BANK BORROWINGS AND OTHER BORROWINGS

Details of the bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2022 are set out in Notes 5(l) 20, 27 and 29 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2022, the Company had distributable reserves denominated in Renminbi of approximately RMB1,047.2 million. The reserves were calculated according to the PRC laws and regulations and the PRC Accounting Standards.

CHARITABLE DONATION

For the charitable donation made by the Group during the year ended 31 December 2022, please refer to the section headed "B8 Community Investment" in the "Environmental, Social and Governance Report" for details.

FIXED ASSETS, INTANGIBLE ASSETS AND CONSTRUCTION IN PROGRESS

Movements in the property, plant and equipment of the Company and its subsidiaries for the year are set out in Notes 5(l) 13, 14 and 16 to the consolidated financial statements.

SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2022.

The Group had no significant investment held during the year ended 31 December 2022.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the year ended 31 December 2022, details of Directors, Supervisors and senior management of the Company are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" of this annual report.

The Company has received from each of the independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that each of the independent non-executive Directors are independent of the Company.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

The Company has entered into a service contract or letter of appointment with each of our Directors (Mr. Wang Qi, an independent non-executive Director, resigned on 13 April 2022), and their terms commenced from 2 December 2021 and will all expire on 1 December 2024, unless terminated by the Company by way of ordinary resolutions of the Shareholders at a general meeting of the Company in accordance with the applicable laws of the PRC and Hong Kong. The appointments are subject to the relevant provisions of the Articles of Association with regard to vacation and removal of office of Directors and retirement by rotation of Directors.

The Company has entered into a service contract with each of our Supervisors, pursuant to which they agreed to act as Supervisors. The terms of all Supervisors commenced

Report of the Board of Directors (Continued)

from 2 December 2021 and will all expire on 1 December 2024, unless terminated by the Company by giving to the relevant Supervisor not less than three months' written notice at any time after expiry of the first year during the term of his/her appointment. The appointments are subject to the provisions of the Articles of Association with regard to vacation and removal of office of Supervisors and retirement by rotation of Supervisors.

The Company has entered into a contract in respect of, among others, compliance of relevant laws and regulations and observations of the Articles of Association of the Company and provision on arbitration with each of the Directors and Supervisors. Save as disclosed above, none of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

The distribution of remuneration of senior management (other than Directors and Supervisors as disclosed in Note 10(II) 5 to the consolidated financial statements) for the year ended 31 December 2022 is as follows:

Remuneration bands	Number of individuals
RMB100,001 to RMB200,000	2
RMB200,001 to RMB300,000	2

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Apart from as disclosed under the section headed "Continuing Connected Transactions" in this report, at the end of the year or at any time during the year, there was no transaction, arrangement or contract of significance to the Group's business in which the Company or its subsidiaries was a party, either directly or indirectly, and in which a Director or Supervisor or an entity connected with the Director or Supervisor had a material interest, either directly or indirectly, subsisted during the year or at the end of the year.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S REMUNERATION

Details of remuneration of Directors and Supervisors of the Company for the year ended 31 December 2022 are set forth in Note 10(II) 5 to the audited consolidated financial statements.

The Remuneration Committee of the Company will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, their respective time commitment and responsibilities and the performance of the Group.

There was also no contract of significance for the provision of services to the Company or its subsidiaries by a Controlling Shareholder or any of its subsidiary.

INTEREST OF DIRECTORS IN COMPETING BUSINESS AND CONFLICT OF INTERESTS

During the year of 2022, Directors and their associates did not have any competing interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group or had any other conflict of interests with the Group.

Report of the Board of Directors (Continued)

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

As at 31 December 2022, so far as known to the Directors, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the Shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) (a) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code (including those they are taken or deemed to have under such provisions of the SFO) are as follows:

Long positions in the Domestic Shares of the Company:

Name	Capacity	Personal interest	Interest of spouse	Number of Shares		Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (%) (Note 3)
				Deemed interest pursuant to Section 317 of the SFO (Note 1)	Total number		
Mr. Zhang Haijun (張海軍)	Director	128,426,480	N/A	444,426,294	572,852,774	85.07	63.80
Mr. Zhang Lifeng (張力峰)	Chief Executive Officer	16,643,140	N/A	556,209,634	572,582,774	85.07	63.80
Mr. Wu Jinyu (吳金玉)	Director	28,219,706	N/A	544,633,068	572,852,774	85.07	63.80
Mr. Zhang Chao (張超)	Director	17,205,163	N/A	555,647,611	572,852,774	85.07	63.80
Mr. Zhang Lihuan (張力歡)	Director	17,202,679	N/A	555,650,095	572,852,774	85.07	63.80

Notes:

- (1) The relevant parties are members of the Controlling Shareholders Group. On 17 December 2020, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. All the members of the Controlling Shareholders Group together controlled approximately 63.80% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by other members of the Controlling Shareholders Group.
- (2) Based on the total number of 673,380,000 Domestic Shares in issue.
- (3) Based on the total number of 897,840,000 Shares in issue.

Save as disclosed above, as at 31 December 2022, none of the Directors, Supervisors or chief executives of the Company had an interest and short position in the Shares, underlying shares or debentures of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of the Board of Directors (Continued)

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

As at 31 December 2022, so far as is known to the Directors, the interests or short positions of the persons (other than a Director, Supervisor or chief executive of the Company) in the Shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO are as follows:

Long positions in the Shares of the Company:

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (%) (Note 3)
Ms. Zhou Qiuju (周秋菊) (Note 4)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Ms. Zhang Junxia (張軍霞) (Note 1)	Domestic Shares	Beneficial owner	83,873,136		
		Deemed interest pursuant to Section 317 of the SFO	488,979,638		
			572,852,774	85.07%	63.80%
Ms. Zhang Xiaoxia (張小霞) (Note 5)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Xiaogeng (張小更) (Note 1)	Domestic Shares	Beneficial owner	83,477,508		
		Deemed interest pursuant to Section 317 of the SFO	489,375,266		
			572,852,774	85.07%	63.80%
Ms. Liu Jiao (劉姣) (Note 6)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Xiaosuo (張小鎖) (Note 1)	Domestic Shares	Beneficial owner	83,675,322		
		Deemed interest pursuant to Section 317 of the SFO	489,177,452		
			572,852,774	85.07%	63.80%
Ms. Sun Shujing (孫書京) (Note 7)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Ms. Zhang Xiaoxia (張曉霞) (Note 8)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Ligang (張立剛) (Note 1)	Domestic Shares	Beneficial owner	26,355,534		
		Deemed interest pursuant to Section 317 of the SFO	546,497,240		
			572,582,774	85.07%	63.80%

Report of the Board of Directors (Continued)

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (%) (Note 3)
Ms. Zhai Junping (翟軍平) (Note 9)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Ms. Zhang Weihuan (張偉環) (Note 10)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Lijie (張力杰) (Note 1)	Domestic Shares	Beneficial owner	17,202,679		
		Deemed interest pursuant to Section 317 of the SFO	555,650,095		
			572,852,774	85.07%	63.80%
Ms. Liu Lixia (劉麗霞) (Note 11)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Ms. Yang Yunjuan (楊雲娟) (Note 12)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Ms. Zhang Yanfeng (張艷峰) (Note 1)	Domestic Shares	Beneficial owner	17,207,647		
		Deemed interest pursuant to Section 317 of the SFO	555,645,127		
			572,852,774	85.07%	63.80%
Mr. Zhang Weiwei (張偉衛) (Note 13)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Libin (張力斌) (Note 1)	Domestic Shares	Beneficial owner	16,643,140		
		Deemed interest pursuant to Section 317 of the SFO	556,209,634		
			572,852,774	85.07%	63.80%
Ms. Yin Yanping (尹彥萍) (Note 14)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Ning (張寧) (Note 1)	Domestic Shares	Beneficial owner	17,205,163		
		Deemed interest pursuant to Section 317 of the SFO	555,647,611		
			572,852,774	85.07%	63.80%
Ms. Huang Li (黃麗) (Note 15)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Ms. Zhang Hong (張宏) (Note 1)	Domestic Shares	Beneficial owner	17,207,647		
		Deemed interest pursuant to Section 317 of the SFO	555,645,127		
			572,852,774	85.07%	63.80%

Report of the Board of Directors (Continued)

Name	Class of Shares	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding in the relevant class of Shares (%) (Note 2)	Total approximate percentage of shareholding in the total share capital of the Company (%) (Note 3)
Mr. Liu Chaohui (劉朝輝) (Note 16)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Zhang Ruiqiu (張瑞秋) (Note 1)	Domestic Shares	Beneficial owner	2,307,830		
		Deemed interest pursuant to Section 317 of the SFO	570,544,944		
			572,852,774	85.07%	63.80%
Ms. Gao Xiangrong (高香榮) (Note 17)	Domestic Shares	Interest of spouse	572,852,774	85.07%	63.80%
Mr. Guo Zhongyan (郭中彥)	H Shares	Beneficial owner	25,031,000	11.15%	2.79%
Sino Wealthy Limited	H Shares	Beneficial owner	17,833,000	7.94%	1.99%
Mr. Wang Lei (汪磊) (Mr. Wang) (Note 18)	H Shares	Interest of controlled corporation	31,426,000	14%	3.50%
Ms. Zhang Zimo (張紫墨) (Ms. Zhang) (Note 18)	H Shares	Interest of spouse	31,426,000	14%	3.50%
Mr. Li Yanhao (李艷浩) (Mr. Li) (Note 18)	H Shares	Interest of controlled corporation	31,426,000	14%	3.50%
Ms. Feng Dasha (封達莎) (Ms. Feng) (Note 18)	H Shares	Interest of spouse	31,426,000	14%	3.50%
Vistra Trust (Singapore) Pte. Limited (Note 18)	H Shares	Trustee	31,426,000	14%	3.50%
Cyber Warrior Holdings Limited (Note 18)	H Shares	Interest of controlled corporation	31,426,000	14%	3.50%
Brainstorming Cafe Limited (Note 18)	H Shares	Interest of controlled corporation	31,426,000	14%	3.50%
Flowing Cloud Technology Ltd (Note 18)	H Shares	Beneficial owner	31,426,000	14%	3.50%
北京市基礎設施投資有限公司 (Note 19)	H Shares	Interest of controlled corporation	38,102,000	16.97%	4.24%
京投(香港)有限公司 (Note 19)	H Shares	Beneficial owner	38,102,000	16.97%	4.24%
石家莊國控投資集團有限責任公司 (Note 20)	H Shares	Interest of controlled corporation	20,300,000	9.04%	2.26%
GUOKONG (HONG KONG) INVESTMENT CO., LIMITED (Note 20)	H Shares	Beneficial owner	20,300,000	9.04%	2.26%

Report of the Board of Directors (Continued)

Notes:

- (1) A group of 15 individuals, namely Mr. Zhang Haijun (張海軍), Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋), are collectively the controlling shareholders of the Company (the "Controlling Shareholders Group"). On 17 December 2020, they entered into a written agreement to, among others, confirm their acting-in-concert agreement. All the members of the Controlling Shareholders Group together controlled approximately 63.80% of the total share capital of our Company. Under the SFO, each member of the Controlling Shareholders Group will be deemed to be interested in the Shares beneficially owned by other members of the Controlling Shareholders Group.
- (2) Based on the total number of 673,380,000 Domestic Shares in issue or 224,460,000 H Shares in issue.
- (3) Based on the total number of 897,840,000 Shares in issue.
- (4) Ms. Zhou Qiuju (周秋菊) is the spouse of Mr. Zhang Haijun (張海軍). Under the SFO, Ms. Zhou Qiuju is deemed to be interested in the same number of Shares in which Mr. Zhang Haijun is interested.
- (5) Ms. Zhang Xiaoxia (張小霞) is the spouse of Mr. Zhang Xiaosuo (張小鎖). Under the SFO, Ms. Zhang Xiaoxia is deemed to be interested in the same number of Shares in which Mr. Zhang Xiaosuo is interested.
- (6) Ms. Liu Jiao (劉皎) is the spouse of Mr. Zhang Libin (張力斌). Under the SFO, Ms. Liu Jiao is deemed to be interested in the same number of Shares in which Mr. Zhang Libin is interested.
- (7) Ms. Sun Shujing (孫書京) is the spouse of Mr. Zhang Xiaogeng (張小更). Under the SFO, Ms. Sun Shujing is deemed to be interested in the same number of Shares in which Mr. Zhang Xiaogeng is interested.
- (8) Ms. Zhang Xiaoxia (張曉霞) is the spouse of Mr. Wu Jinyu (吳金玉). Under the SFO, Ms. Zhang Xiaoxia is deemed to be interested in the same number of Shares in which Mr. Wu Jinyu is interested.
- (9) Ms. Zhai Junping (翟軍平) is the spouse of Mr. Zhang Ligang (張立剛). Under the SFO, Ms. Zhai Junping is deemed to be interested in the same number of Shares in which Mr. Zhang Ligang is interested.
- (10) Ms. Zhang Weihuan (張偉環) is the spouse of Mr. Zhang Chao (張超). Under the SFO, Ms. Zhang Weihuan is deemed to be interested in the same number of Shares in which Mr. Zhang Chao is interested.
- (11) Ms. Liu Lixia (劉麗霞) is the spouse of Mr. Zhang Lijie (張力杰). Under the SFO, Ms. Liu Lixia is deemed to be interested in the same number of Shares in which Mr. Zhang Lijie is interested.
- (12) Ms. Yang Yunjuan (楊雲娟) is the spouse of Mr. Zhang Lifeng (張力峰). Under the SFO, Ms. Yang Yunjuan is deemed to be interested in the same number of Shares in which Mr. Zhang Lifeng is interested.
- (13) Mr. Zhang Weiwei (張偉衛) is the spouse of Ms. Zhang Yanfeng (張艷峰). Under the SFO, Mr. Zhang Weiwei is deemed to be interested in the same number of Shares in which Ms. Zhang Yanfeng is interested.
- (14) Ms. Yin Yanping (尹彥萍) is the spouse of Mr. Zhang Lihuan (張力歡). Under the SFO, Ms. Yin Yanping is deemed to be interested in the same number of Shares in which Mr. Zhang Lihuan is interested.
- (15) Ms. Huang Li (黃麗) is the spouse of Mr. Zhang Ning (張寧). Under the SFO, Ms. Huang Li is deemed to be interested in the same number of Shares in which Mr. Zhang Ning is interested.
- (16) Mr. Liu Chaohui (劉朝輝) is the spouse of Ms. Zhang Hong (張宏). Under the SFO, Mr. Liu Chaohui is deemed to be interested in the same number of Shares in which Ms. Zhang Hong is interested.
- (17) Ms. Gao Xiangrong (高香榮) is the spouse of Mr. Zhang Ruiqiu (張瑞秋). Under the SFO, Ms. Gao Xiangrong is deemed to be interested in the same number of Shares in which Mr. Zhang Ruiqiu is interested.
- (18) To the best of the knowledge, information and belief of the Directors and based on the shareholding disclosures made by the substantial shareholders pursuant to Part XV of the SFO,
- these 31,426,000 H Shares are held by Flowing Cloud Technology Ltd;
 - Flowing Cloud Technology Ltd is controlled as to approximately 42.21% by Brainstorming Cafe Limited, which is in turn owned as to approximately 61.05% by Cyber Warrior Holdings Limited, 26.16% by Wanglei Co., Ltd. and 12.79% by LYH. Ltd;
 - Cyber Warrior Holdings Limited is controlled as to 100% by Vistra Trust (Singapore) Pte. Limited, the trustee under Waterstones Trust, a discretionary trust of which Mr. Wang is the settlor and protector;
 - Mr. Wang and Mr. Li have entered into a concert party agreement, pursuant to which they confirmed, among other things, that they have been and shall continue to give unanimous consent, approval or rejection on any material issues and decision in relation to the business of Flowing Cloud Technology Ltd;

Report of the Board of Directors (Continued)

- Ms. Zhang is the spouse of Mr. Wang;
 - Ms. Feng is the spouse of Mr. Li; and
 - accordingly, under the SFO, each of Mr. Wang, Mr. Li, Vistra Trust (Singapore) Pte. Limited, Cyber Warrior Holdings Limited and Brainstorming Cafe Limited is taken to be interested in the H Shares in which Flowing Cloud Technology Ltd is interested, Mr. Wang, is taken to have an interest in the H Shares held on trust under Waterstones Trust, Ms. Zhang is taken to be interested in the H Shares in which Mr. Wang is interested, and Ms. Feng is taken to be interested in the H Shares in which Mr. Li is interested.
19. These 38,102,000 H Shares are held by 京投（香港）有限公司, which is wholly owned by 北京市基礎設施投資有限公司.
20. These 20,300,000 H Shares are held by GUOKONG (HONG KONG) INVESTMENT CO., LIMITED, which is wholly owned by 石家莊國控投資集團有限責任公司.

Save as disclosed above, as at 31 December 2022, no person (other than a Director, Supervisor and chief executive of the Company, whose interests are set out in the section headed “Interests and Short Positions of the Directors, Supervisors and Chief Executives in the Shares, Underlying Shares and Debentures” above) had registered any interest or short position in the Shares and underlying shares of the Company which are recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

INSURANCE FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the date of this report, the Company had bought effective liability insurance for (current) Directors, Supervisors and senior management.

RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES

During the reporting period, no right to subscribe the Shares or debentures of the Company or any of its associated corporations was granted by the Company and its subsidiaries to any Director, Supervisor or chief executive of the Company or their respective spouses or children aged over 18, and no such rights to subscribe the above Shares or debentures were exercised by them.

H SHARE AWARD SCHEME

The H Share Award Scheme of the Company (the “**Scheme**”) was adopted pursuant to a special resolution passed by the Shareholders at the extraordinary general meeting of the Company held on 13 September 2022 (the “**Adoption Date**”).

Persons eligible for the share awards under the Scheme (the “**Awards**”) include any full time employee of the Group who is not a connected person of the Company (the “**Eligible Participants**”). The purpose of the Scheme is to recognise and acknowledge the contribution which the Eligible Participants have made or may make to the Group.

The Board shall be entitled at any time during the continuation of the Scheme to grant Awards to any of the Eligible Participants such number of H Shares as it shall determine pursuant to the Scheme. A grant of an Award shall be made to an Eligible Participant by way of a grant letter to be issued by the Company, and the Board may impose any conditions, restrictions or limitations before the Award can vest as it sees fit by setting out the same in the grant letter. There is no amount payable on acceptance of the awards prescribed in the rules of Scheme.

Report of the Board of Directors (Continued)

The Company has appointed Equiom Fiduciary Services (Hong Kong) Limited as the initial trustee (the “**Trustee**”) to assist in the administration of the Scheme. The Board shall, after having regard to the requirements in relation to the grant of Awards as stated in the rules of the Scheme, the Listing Rules, the applicable laws and regulations and all relevant circumstances and affairs of the Group (including without limitation the Group’s business and operational conditions, its business plans and cashflow requirements currently and in the near future), cause to be paid to the Trustee (or its nominee) such amount as may be required for the purchase of existing H Shares from the market and the related purchase expenses (including all such necessary fees, stamp duty, levies and expenses required for the completion of the purchase of all the awarded shares, as applicable). For the avoidance of doubt, the Board shall not issue and shall not instruct the Trustee (or its nominee) to subscribe for any new H Shares for the purpose of satisfying any Award or otherwise in relation to the Scheme. The Trustee may purchase the H Shares on the Stock Exchange at the prevailing market price (subject to such maximum price as may be from time to time prescribed by the Board). The Trustee (and its nominee) shall not subscribe for any new H Shares in any event. Upon the making of an Award under the Scheme, the Board shall notify the Trustee in writing, providing substantially the same information as stated in the relevant grant letter. The Board may from time to time, at its discretion, determine the earliest vesting date and other subsequent date(s), if any, subject to and upon which the awarded shares held by the Trustee upon trust and which are referable to a Grantee shall vest in that Grantee.

The Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date but may be terminated earlier as determined by passing of resolutions at the general meeting by the Shareholders and/or if so authorised by the Shareholders, the Board. Unless so terminated, the remaining life of the Scheme will last until 12 September 2032.

Under the Scheme, the Board shall not make any further award of Shares which will result in the number of H Shares awarded by the Board under the Scheme exceeding 10% of the issued H Shares as at the Adoption Date. Accordingly, the maximum number of H Shares which may be awarded under the Scheme is 22,446,000 H Shares. Since the Adoption Date and up to the date of this annual report, no Award has been made under the Scheme, and hence as at the date of this annual report, the number of Shares available for Awards under the Scheme is 22,446,000 H Shares, representing 10% of the number of issued H Shares. There is no specific limit on the maximum number of Shares that may be granted to a single Eligible Participant under the Scheme.

MANAGEMENT CONTRACTS

The Company did not enter into or establish any management and administrative contracts relating to all or any material part of business with any individual in 2022.

SIGNIFICANT CONTRACTS

Apart from as disclosed under the section headed “Continuing Connected Transactions” in this report, neither the Company nor any of its subsidiaries has signed significant contracts with the Controlling Shareholder or (if the Controlling Shareholder is a company) any of its subsidiaries other than the Group, and no significant contract for delivery of service has been signed between the Group and the Controlling Shareholder or any of its subsidiaries other than the Group.

Report of the Board of Directors (Continued)

CONNECTED TRANSACTIONS

As disclosed in Note 10 to the financial statements, certain related party transactions of the Group conducted during the year ended 31 December 2022 constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules. All such transactions are fully exempt from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

PUBLIC FLOAT

Based on the publicly available information to the Company and within the knowledge of the Directors, not less than 25% of the Shares of the Company in issue are held by the public as at the latest practicable date prior to the publication of this annual report, which complied with the requirement of the Listing Rules.

EVENTS AFTER REPORTING PERIOD

As at the date of this report, no major events occurred after the reporting period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code as set out in Appendix 14 to Listing Rules as its own code of corporate governance. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the Corporate Governance Code. For the year ended 31 December 2022 and up to the date of this report, the Company has complied with applicable code provisions as set out in the Corporate Governance Code. For more details, please see the section headed "Corporate Governance Report" in this annual report.

MAJOR LEGAL PROCEEDINGS

As of 31 December 2022, the Company was not involved in any major legal proceedings.

BUSINESS ACTIVITIES IN THE SANCTIONED COUNTRIES

In respect of the Group's business activities in the sanctioned countries, the Company has established the International Trade Audit Committee (the "ITAC") to monitor the risk exposure of the Group under the international sanctions laws and periodically review the Group's internal control policies and procedures with respect to sanctions law matters and its implementation by the Group, and report to the Board thereon. Details of the Group's internal control measures and policies in relation to sanctions risks are set out in the section headed "Risk Management and Internal Controls" in the "Corporate Governance Report" in this annual report.

For the year ended 31 December 2022, the Group had sold welding wire products to six customers in sanctioned countries, namely Russia and Ukraine, amounting to approximately 0.036% of the total revenue of the Group for the year. Before the aforementioned sales were made, the ITAC had assessed the relevant sanctions risks, and reviewed and approved all relevant business transaction documentation (including but not limited to the information of the customers (such as identity, nature of business etc.) along with the draft business transaction documentation) based on the internal control procedures. The ITAC had checked the customers' names against various lists of restricted parties and countries maintained by the European Union, the United States of America, Australia or the United Nations to ascertain that the customers were not, or were not owned or controlled by, a person located in a sanctioned country or a sanctioned person. The ITAC has also continuously monitored the use of proceeds from the Global Offering and any other funds raised through the Stock Exchange by the Company, so as to ensure that such funds have not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any sanctioned countries or any sanctioned persons which are prohibited under international sanctions laws and regulations.

Report of the Board of Directors *(Continued)*

The Board believes that, the Group's business activities in the sanctioned countries are not sanctioned activities under the international sanctions laws and the Group, the Company's Shareholders and potential investors, the Stock Exchange and the related group companies, HKSCC or HKSCC Nominees Limited would not be subject to any risks or become a target of sanctions laws of the European Union, the United States of America, Australia or the United Nations as a result of such activities. Therefore, in order to maintain revenue and to maximise the Shareholders' interests, the Group will continue to legally carry out the above business activities in the sanctioned countries in accordance with the applicable international sanctions laws and regulations.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the Group's annual results and the consolidated financial statements for the year ended 31 December 2022 prepared in accordance with the PRC Accounting Standards.

CHANGES IN THE INFORMATION OF DIRECTORS AND SUPERVISORS

The changes in the information of Directors and Supervisors that were required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules are as follows:

1. Ms. Zheng Zhixing was appointed as a non-executive Director on 13 September 2022.
2. Ms. Gu Xiaohui resigned as a non-executive Director on 13 September 2022.
3. Mr. Wang Fujun was appointed as an independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee and the Corporate Governance Committee on 31 May 2022.
4. Mr. Wang Qi resigned as an independent non-executive Director, the chairman of the Nomination Committee and a member of the Audit Committee and the Corporate Governance Committee on 13 April 2022.
5. Mr. Zhang Lihuan was the general manager of Hebei Yichen Welding Company Limited* (河北翼辰焊業有限公司) in January 2023.
6. Mr. Zhang Chao resigned as a joint company secretary on 17 January 2023.
7. Mr. Jip Ki Chi resigned as an independent non-executive director of China MeiDong Auto Holdings Limited on 30 November 2022.

Save as disclosed above, there is no other information required to be disclosed in this section pursuant to Rule 13.51B (1) of the Listing Rules.

Report of the Board of Directors (*Continued*)**AUDITOR**

Pan-China Certified Public Accountant LLP (天健會計師事務所(特殊普通合夥)) (“**PCCPA**”) was re-appointed as auditor of the Company at the annual general meeting of the Company held on 25 May 2022 to hold office until the conclusion of the next annual general meeting of the Company (i.e. the AGM). The consolidated financial statements for the year ended 31 December 2022 prepared in accordance with the China Certified Public Accountant Review Standard have been audited by PCCPA who shall retire as the auditor of the Company at the forthcoming AGM and, being eligible, offer themselves for re-election. The resolution of reappointment of PCCPA as the Company’s auditor will be proposed for consideration at the forthcoming AGM.

FINANCIAL SUMMARY

The summary of results of operation, assets and liabilities of the Group for the year ended 31 December 2022 is set out on page 4 of this annual report.

By Order of the Board

Zhang Haijun

Chairman

Hebei, China

30 March 2023

REPORT OF SUPERVISORY BOARD

In 2022, the entire Supervisory Board of the Company performed its supervisory duties conscientiously and worked prudently and proactively, in strict accordance with the PRC Company Law (中國《公司法》) and the Articles of Association of the Company. It worked in the principle of integrity and for the long-term interests of the Company and the rights and interests of Shareholders. Below sets out a report on the principal work during the reporting period:

I. SUPERVISORY BOARD MEETINGS

1. “Resolution on the Consideration of the ‘Draft of Annual Results Announcement for the Year 2021’” (《關於審議《2021年度業績公告草稿》的議案》), “Resolution on the Consideration of the ‘Draft of Annual Report for the Year 2021’” (《關於審議《2021年度年報草稿》的議案》), “Resolution on the Consideration of the ‘Report of Supervisory Board for the Year 2021’” (《關於審議《2021年度監事會報告》的議案》), “Resolution on the Consideration of the ‘Corporate Governance Report for the Year 2021’” (《關於審議《2021年度企業管治報告》的議案》), “Resolution on the Consideration of the ‘ESG Report for the Year 2021’” (《關於審議《2021年度ESG報告》的議案》) and “Resolution on the Consideration of the ‘the Profit Distribution Plan of Hebei Yichen Industrial Group Corporation Limited for the Year 2021’” (《關於審議《河北翼辰實業集團股份有限公司2021年度利潤分配》的議案》) were deliberated and approved by the second meeting of the third session of the Supervisory Board convened on 29 March 2022.
2. “Resolution on the Consideration of the ‘Draft of Interim Report and Draft of Interim Results Announcement for the Year 2022’” (《關於審議《2022年度中期報告及中期業績公告的草稿》的議案》), “Resolution on the Consideration of the ‘Interim Profit Distribution for the Year 2022’” (《關於審議《2022年度中期利潤分配》的議案》) were deliberated and approved by the third meeting of the third session of the Supervisory Board convened on 25 August 2022.

All the Supervisors attended the above meetings.

Report of Supervisory Board (*Continued*)

II. INDEPENDENT OPINIONS OF THE SUPERVISORY BOARD

The Supervisory Board expressed the following opinions on the supervision and inspection during the year:

1. Legal Operation of the Company

During the reporting period, the Supervisory Board attended all Board meetings and general meetings. The Supervisory Board also supervised and inspected the procedures for convening the Company's Board and general meetings and resolutions thereof, the Board's execution of resolutions made at general meetings, the performance of duties by senior management members of the Company, the implementation of various management policies of the Company, and the Company's production and operational conditions. The Supervisory Board was of the view that the Company was capable of standard operation as well as scientific and reasonable decision-making, and that the Company had a consummate and effective internal control system. No material deficiency was identified with respect to the design or execution of internal control of the Company.

2. Financial Position of the Company

The Supervisory Board carefully considered resolutions regarding the Company's periodic financial report and financial policies during the reporting period. The Supervisory Board was of the view that the Company continuously improved and strictly implemented its financial internal control system, which effectively ensured its smooth production and operation. In 2022, the Company's financial position was sound with standardised financial management. The auditors issued an audit report with

unqualified opinion. The financial statements of the Company reflected its financial position and annual results as of 31 December 2022 in a truthful manner.

3. Connected Transactions of the Company

During the reporting period, the pricing principles of connected transactions were in line with common business practices and the relevant requirements of policies, demonstrating the principles of fairness and equality. The Supervisory Board was of the view that, there was no act damaging the interests of the Company and its shareholders, especially the minority interests, as a result of insider dealings in 2022.

4. Execution of the Resolutions Passed at the General Meeting

The Supervisory Board attended the general meeting for the year, where it reviewed and supervised the resolutions. In this regard, the Supervisory Board considered that the Board effectively executed the resolutions of the general meeting.

5. Information Disclosure of the Company

The Company strictly complied with the information disclosure management systems of regulatory authorities and the Company during its execution. It provided truthful, accurate and complete information disclosure, with no discloseable issues yet to be disclosed.

Guan En

Chairman of the Supervisory Board
Hebei, the PRC

30 March 2023

CORPORATE GOVERNANCE REPORT

The Board is pleased to report to the shareholders on the corporate governance of the Company for the year ended 31 December 2022.

CORPORATE GOVERNANCE CULTURE

The Company is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, the Company believes that Shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to Shareholders;
- that the interests of those who deal with the Company are safeguarded;
- that overall business risk is understood and managed appropriately;
- the delivery of high-quality products and services to the satisfaction of customers; and
- that high standards of ethics are maintained.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining good corporate governance standards.

The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Part 2 of Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company has devised its own code of corporate governance which incorporates all the principles and practices as set out in the CG Code contained in Part 2 of Appendix 14 of the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2022, the Company has complied with all the code provisions as set out in the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS/MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code regarding securities transactions of the Company by the Directors and Supervisors of the Company.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the required standards as set out in the Model Code throughout the year ended 31 December 2022.

The Company has also established written guidelines (the "Employees Written Guidelines") no less exacting than the Model Code for securities transactions by employees who because of such office or employment, are likely to be in possession of inside information in relation to Company or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

BOARD OF DIRECTORS

The Company is headed by an effective Board which assumes responsibility for its leadership and control and be collectively responsibility for promoting the Company's success by directing and supervising the Company's affairs. The Board oversees the Group's business, strategic decisions and performance and take decisions objectively in the best interests of the Company from time to time.

Corporate Governance Report (Continued)

The Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business and regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company, and whether the Director is spending sufficient time performing them that are commensurate with their role and the Board responsibilities. The Board includes a balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement.

Board Composition

The Board comprises the following Directors:

Executive Directors

Mr. Zhang Haijun (*Chairman*)
 Mr. Wu Jinyu
 Mr. Zhang Chao
 Mr. Zhang Lihuan
 Ms. Ma Xuehui

Non-executive Directors

Ms. Zheng Zhixing (Appointed on 13 September 2022)
 Ms. Gu Xiaohui (Resigned on 13 September 2022)

Independent Non-executive Directors

Mr. Jip Ki Chi
 Mr. Zhang Liguo
 Mr. Wang Fujun (Appointed on 31 May 2022)
 Mr. Wang Qi (Resigned on 13 April 2022)

The biographical information of the Directors and the relationships between the Directors are set out in the section headed "Biographical Details of Directors, Supervisors and Senior Management" on pages 15 to 19 of this Annual Report. Save as disclosed above, there is no relationships (including financial, business, family or other material/relevant relationship(s)) between the Board members.

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors.

Apart from regular Board meetings, the Chairman is also required to hold meetings with Independent Non-executive Directors without the presence of other Directors during the year. The Chairman held a meeting with the Independent Non-executive Directors without the presence of other Directors on 28 December 2022.

During the year ended 31 December 2022, the Board held ten meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Haijun (<i>Chairman</i>)	10/10
Mr. Wu Jinyu	10/10
Mr. Zhang Chao	10/10
Mr. Zhang Lihuan	10/10
Ms. Ma Xuehui	10/10
Ms. Gu Xiaohui ^{#1}	7/7 ^{#2}
Ms. Zheng Zhixing ^{#3}	3/3 ^{#4}
Mr. Jip Ki Chi	10/10
Mr. Wang Qi ^{#5}	2/2 ^{#6}
Mr. Zhang Liguo	10/10
Mr. Wang Fujun ^{#7}	7/7 ^{#8}

Notes:

- ^{#1} Resigned on 13 September 2022
- ^{#2} Up to 13 September 2022
- ^{#3} Appointed on 13 September 2022
- ^{#4} Since 13 September 2022
- ^{#5} Resigned on 13 April 2022
- ^{#6} Up to 13 April 2022
- ^{#7} Appointed on 31 May 2022
- ^{#8} Since 31 May 2022

Corporate Governance Report (Continued)

Chairman and General Manager

The positions of Chairman and General Manager are held by Mr. Zhang Haijun and Mr. Zhang Lifeng respectively.

The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The General Manager focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

Save as disclosed below, during the year ended 31 December 2022, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all Independent Non-executive Directors are independent.

Rule 3.10(1) of the Listing Rules requires every board of directors of a listed issuer must include at least three independent non-executive directors. Rule 3.10A of the Listing Rules requires an issuer must appoint independent non-executive directors representing at least one-third of the board.

During the year ended 31 December 2022, Mr. Wang Qi resigned as an Independent Non-executive Director. Following the aforesaid resignation, the Company has two Independent Non-executive Directors.

Following the appointment of Mr. Wang Fujun as an Independent Non-executive Director on 31 May 2022, the Company has re-complied with Rules 3.10(1) and 3.10(A) of the Listing Rules.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

During the year ended 31 December 2022, all Directors has completed the independence evaluation in the form of a questionnaire individually and supplemented by individual interviews. The Board Independence Evaluation Report was presented to the Board and the evaluation results were satisfactory.

During the year ended 31 December 2022, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

Appointment and Re-election of Directors

Pursuant to Article 10.2 of the Articles of Association of the Company, Directors shall be elected at Shareholders' general meetings with a term of office of three years from the date on which the election takes effect. Upon the expiration of the term of office, Directors shall be eligible to offer themselves for re-election.

Corporate Governance Report (Continued)

The term of office of the Second Session of the Board of Directors was expired on 5 December 2021. At the extraordinary general meeting held on 2 December 2021 (“EGM”), the ordinary resolutions approving the re-election or election (as the case may be) of the Directors by the Shareholders at the EGM were passed, all members of the Third Session of the Board of Directors assumed office. In accordance with Article 10.2 of the Articles of Association, the term of office of the Third Session of the Board of Directors shall be three years, commencing on 2 December 2021, being the date of the extraordinary general meeting.

Accordingly, the executive Directors had each enter into a separate service agreement and the Company had issued a separate appointment letter to each of the Independent Non-executive Directors.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company’s affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group’s operational and financial performance, and ensures that sound internal control and risk management systems are in place.

All Directors, including Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company’s expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has arranged appropriate insurance coverage on Directors’ and officers’ liabilities in respect of any legal actions taken against Directors and senior management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

Every newly appointed Director has received formal and comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director’s responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by visits to the Company’s key plant sites and meetings with senior management of the Company.

Corporate Governance Report (Continued)

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors for the year ended 31 December 2022 are summarized as follows:

Directors	Type of Training ^{Note}
Executive Directors	
Mr. Zhang Haijun	A, B
Mr. Wu Jinyu	A
Mr. Zhang Chao	A, B
Mr. Zhang Lihuan	A
Ms. Ma Xuehui	A, B
Non-executive Directors	
Ms. Zheng Zhixing (Appointed on 13 September 2022)	A
Ms. Gu Xiaohui (Resigned on 13 September 2022)	B
Independent Non-executive Directors	
Mr. Jip Ki Chi	A
Mr. Zhang Liguo	A
Mr. Wang Fujun (Appointed on 31 May 2022)	A, B
Mr. Wang Qi (Resigned on 13 April 2022)	B

Note:

Types of Training

- A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
- B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

SUPERVISORY BOARD

The Company has a Supervisory Board which is composed of three members, namely Mr. Guan En, Mr. Liu Jianbin and Mr. Hu Hebin. Mr. Guan En is the chairman of the Supervisory Board. The Supervisory Board consists of two Shareholders representative Supervisors and one staff representative Supervisor. Directors and members of the senior management may not act as Supervisors. The employee representative Supervisors shall be democratically elected by the Company's employees at the employee representative assembly, general employee meeting or otherwise.

Mr. Hu Hebin, the employee representative Supervisor of the Third Session of the Board of Supervisors and Mr. Guan En and Mr. Liu Jianbin, the Shareholder representative Supervisors, were appointed as the Supervisors of the Third Session of the Board of Supervisors of the Company with effect from 2 December 2021, and until the expiration the term of the Third Session of the Board of Supervisors i.e. until 1 December 2024.

Each term of office of a Supervisor is three years and he or she may serve consecutive terms if re-elected. A Supervisor shall continue to perform his/her duties in accordance with the laws, administrative regulations and Articles of Association until a duly re-elected Supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of Supervisors results in the number of Supervisor being less than the statutory member.

Corporate Governance Report (Continued)

The functions and duties of the Supervisory Board

The Supervisory Board exercises the following powers:

- To review the Company's financial position
- To supervise the Directors and senior management in their performance of their duties and to propose the removal of Directors and senior management who have violated laws, regulations, the Articles of Association or Shareholders' resolution
- To require correction of the behaviors, which are harmful to the Company's interests, of Directors, general manager and other senior management members
- To check and inspect the financial information submitted by the Directors to the Shareholders' general meeting and to engage certified public accountants and practicing auditors, where necessary
- To propose the convening of extraordinary general meetings and to convene and preside over Shareholders' general meetings when the Board fails to perform the duty of convening and presiding over Shareholders' general meeting under the PRC Company Law
- To submit proposals to the Shareholders' general meetings
- To bring actions against Directors and members of senior executives
- To exercise any other authority stipulated in the Articles of Association

Supervisors may be in attendance at Board meetings and make enquiries or proposals in respect of Board resolutions. The Supervisory Board may initiate investigations into any irregularities identified in the operation of the Company and, where necessary, may engage an accounting firm to assist in their work at the Company's expense.

BOARD COMMITTEES

The Board has established five committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee, Corporate Governance Committee and Strategy Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The Audit Committee consists of three Independent Non-executive Directors, namely Mr. Jip Ki Chi, Mr. Zhang Liguang and Mr. Wang Fujun. Mr. Jip Ki Chi is the chairman of the Audit Committee.

The terms of reference of the Audit Committee has been modified on 6 December 2018 and are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to assist the Board:

- To review the financial information and reporting process, risk management and internal control systems
- To monitor the effectiveness of the internal audit function
- To discuss with auditors on scope of audit and make recommendations to the Board on the appointment of external auditors
- To review arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company

Corporate Governance Report (Continued)

The Audit Committee held two meetings to review, in respect of the interim financial results and reports as at 30 June 2022, the annual financial results and reports as at 31 December 2021 and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors and engagement of non-audit services and relevant scope of works, amendments of the terms of reference in light of the amendments to the CG Code, and, connected transactions and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice without the presence of the Executive Directors.

The Audit Committee had reviewed together with the senior management and the external auditors the accounting principles and practices adopted by the Group, and the accuracy and fairness of the consolidated financial statements for the year ended 31 December 2022.

The attendance records of the members of the Audit Committee are as follows:

Name of Members of the Audit Committee	Attendance
Mr. Jip Ki Chi (<i>Chairman</i>)	2/2
Mr. Wang Qi ^{#1}	1/1 ^{#2}
Mr. Zhang Liguó	2/2
Mr. Wang Fujū ^{#3}	1/1 ^{#4}

Notes:

- #1 Resigned on 13 April 2022
 #2 Up to 13 April 2022
 #3 Appointed on 31 May 2022
 #4 Since 31 May 2022

Remuneration Committee

The Remuneration Committee consists of three members, including one Executive Director, namely Mr. Wu Jinyu, and two Independent Non-executive Directors, namely Mr. Jip Ki Chi and Mr. Zhang Liguó. Mr. Zhang Liguó is the chairman of the Remuneration Committee.

The terms of reference of the Remuneration Committee revised on 30 March 2023 and are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include:

- To review and make recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management
- To review and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management
- To review and make recommendations to the Board on the remuneration of the non-executive Directors
- To assess performance of executive Directors
- To review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules

The Remuneration Committee held three meetings during the year to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the Executive Directors and senior management, review and recommend the proposed adoption the H share award scheme and other related matters.

Details of the remuneration of the senior management by band are set out in Note 10(II)4 to the consolidated Financial Statements for the year ended 31 December 2022.

Corporate Governance Report (Continued)

The Company's remuneration policy is to ensure that the remuneration offered to employees, including Directors and senior management, is based on skill, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages of Executive Directors are also determined with reference to the Company's performance and profitability, the prevailing market conditions and the performance or contribution of each Executive Director. The remuneration for the Executive Directors comprises basic salary, pensions and *performance/discretionary bonus. Executive Directors shall receive awards to be granted under the Company's share award scheme. The remuneration policy for Non-Executive Directors and Independent Non-executive Directors is to ensure that Non-Executive Directors and Independent Non-executive Directors are adequately compensated for their efforts and time dedicated to the Company's affairs, including their participation in Board committees. The remuneration for the Independent Non-executive Directors mainly comprises Director's fee which is determined with reference to their duties and responsibilities by the Board. Independent Non-executive Directors shall not receive awards to be granted under the Company's share award scheme. Individual Directors and senior management have not been involved in deciding their own remuneration.

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance
Mr. Zhang Liguó (<i>Chairman</i>)	3/3
Mr. Jip Ki Chi	3/3
Mr. Wu Jinyu	3/3

Nomination Committee

The Nomination Committee consists of three members, including one Executive Director, namely Mr. Wu Jinyu, and two Independent Non-executive Directors, namely Mr. Wang Fujū and Mr. Zhang Liguó. Mr. Wang Fujū is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include:

- To review the structure, size and composition of the Board
- To assess the independence of the Independent Non-executive Directors
- To consider and make recommendations to the Board on the re-election of Directors

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Nomination Committee met three times to review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors. The Nomination Committee considered an appropriate balance of diversity perspectives of the Board is maintained.

Corporate Governance Report (Continued)

The attendance records of the members of the Nomination Committee are as follows:

Name of Members of the Nomination Committee	Attendance
Mr. Wang Qj ^{#1}	1/1 ^{#2}
Mr. Wu Jinyu	3/3
Mr. Zhang Liguo	3/3
Mr. Wang Fujun (Chairman) ^{#3}	1/1 ^{#4}

Notes:

#1	Resigned on 13 April 2022
#2	Up to 13 April 2022
#3	Appointed on 31 May 2022
#4	Since 31 May 2022

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

Pursuant to the Board Diversity Policy, the Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and to ensure that the Board maintains a balanced diverse profile. In relation to reviewing and assessing the Board composition, the Nomination Committee is committed to diversity at all levels and will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and regional and industry experience.

The Company aims to maintain an appropriate balance of diversity perspectives that are relevant to the Company's business growth and is also committed to ensuring that recruitment and selection practices at all levels (from the Board downwards) are appropriately structured so that a diverse range of candidates are considered.

An analysis of the Board's current composition based on the measurable objectives is set out below:

Gender

Male: 7 Directors
Female: 2 Directors

Designation

Executive Directors: 5 Directors
Non-executive Directors: 1 Directors
Independent Non-executive Directors: 3 Directors

Age Group

31-40: 2 Directors
41-50: 2 Directors
51-60: 2 Directors
Above 60: 3 Directors

Educational Background

Business Administration: 1 Directors
Account and Finance: 3 Directors
Other: 4 Directors

Business Experience

Accounting & Finance: 3 Directors
Experience Related To The Company's Business: 2 Directors

Nationality

Chinese: 8 Directors
Hong Kong, China: 1 Director

The Nomination Committee and the Board considered that the current composition of Board is sufficiently diverse.

The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Report (Continued)

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this Annual Report:

	Female	Male
Board	22.2% (2)	77.8% (7)
Senior Management	0% (0)	100% (4)
Other employees	32.4% (439)	67.6% (917)
Overall workforce	32.2% (441)	67.8% (928)

The Board is committed to improving greater gender diversity in the Board, senior management and other employees of the Group and wishes to achieve at least 22.2% (2) of female Directors, 20% (1) of female senior management and 33% (450) of female employees by the end of 2025.

Details on the gender ratio of the Group together with relevant data can be found in the Environmental, Social and Governance Report on pages 81 to 82 of this Annual Report.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and nomination process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board members have a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The nomination process set out in the Director Nomination Policy is as follows:

Appointment of New Director

- (i) The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.
- (ii) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.
- (iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).
- (iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.
- (v) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

Corporate Governance Report (Continued)

Re-election of Director at General Meeting

- (i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.
- (ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.
- (iii) The Nomination Committee and/or the Board should then make recommendation to Shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service
- Requirements of Independent Non-executive Directors on the Board and independence of the proposed Independent Non-executive Directors in accordance with the Listing Rules
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company

During the year ended 31 December 2022, the Nomination Committee recommended to the Board the appointments of a new Non-executive Director, namely Ms. Zheng Zhixing and a new Independent Non-executive Directors, namely Mr. Wang Fujun. The appointments were subject to a stringent nomination process in accordance with the Director Nomination Policy and the Board Diversity Policy, to ensure the Board possesses the necessary skills, experience and knowledge in alignment with the Company's strategy.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

Corporate Governance Committee

The Corporate Governance Committee consists of three members, including one Executive Director, namely Mr. Zhang Chao, and two Independent Non-executive Directors, namely Mr. Jip Ki Chi and Mr. Wang Fujun. Mr. Jip Ki Chi is the chairman of the Corporate Governance Committee.

The principal duties of the Corporate Governance Committee include:

- To develop and review the Company's policies and practices on corporate governance and make recommendations to the Board
- To review and monitor the training and continuous professional development of Directors and senior management

Corporate Governance Report (Continued)

- To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements
- To develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors
- To review the Company's compliance with the CG Code and disclosure on Corporate Governance Report

The Corporate Governance Committee was established by the Board for performing the functions set out in the code provision A.2.1 of the CG Code.

During the year ended 31 December 2022, Corporate Governance Committee met once to review the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The attendance records of the members of the Corporate Governance Committee are as follows:

Name of Members of the Corporate Governance Committee	Attendance
Mr. Jip Ki Chi (<i>Chairman</i>)	1/1
Mr. Zhang Chao	1/1
Mr. Wang Qi ^{#1}	1/1 ^{#2}
Mr. Wang Fujun ^{#3}	N/A ^{#4}

Notes:

- ^{#1} Resigned on 13 April 2022
- ^{#2} Up to 13 April 2022
- ^{#3} Appointed on 31 May 2022
- ^{#4} Since 31 May 2022

Strategy Committee

The Strategy Committee consists of three members, including two Executive Directors, namely Mr. Zhang Haijun and Mr. Wu Jinyu, and one Independent Non-executive Director, namely Mr. Zhang Ligu. Mr. Zhang Haijun is the chairman of the Strategy Committee.

The principal duties of the Strategy Committee include:

- To conduct researches and make recommendations to the Board on the Group's mid-term and long-term strategies and their feasibility
- To conduct research on and make recommendations to the Board on the Group's investment plans, major business decisions and investment earnings forecast
- To evaluate and monitor the implementation of the strategy, plans and measures adopted by the Committee

The Strategy Committee met twice during the year to perform duties as set out in its terms of reference.

The attendance records of the members of the Strategy Committee are as follows:

Name of Members of the Strategy Committee	Attendance
Mr. Zhang Haijun (<i>Chairman</i>)	2/2
Mr. Wu Jinyu	2/2
Mr. Zhang Ligu	2/2

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report (Continued)

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various risk management procedures and guidelines with defined authority for implementation by key business processes and office functions, including project management, sales and leasing, financial reporting, human resources and information technology.

It is the responsibility of the Board to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our assets at all times.

In order to achieve effective and efficient operations and reliable financial reporting and compliance with applicable laws and regulations, the Company has adopted various internal control rules and procedures, including the following:

- To adopt the Internal Control Management Measures, which sets out the procedures for effective implementation of internal control measures
- To provide training to the Directors, senior management and key risk management personnel with respect to our internal control policies and expect to provide continuous training when necessary

- To engage external professional advisers as necessary and work with our internal audit and legal teams to conduct review to ensure that all registrations, licenses, permits, filings and approvals are valid and that the renewals of such documents are made in a timely manner
- To engage a qualified PRC legal adviser, to review and advise on our regulatory compliance with the relevant PRC laws and regulations that are material to our business operations in China

Our human resources team is responsible for developing and monitoring our human resources management system which covers recruitment procedures, employment agreements, employee compensation and employee annual evaluation to ensure that we comply with relevant regulatory requirements and applicable laws so as to reduce our legal risks.

Our sales activities are regulated in accordance with the nature of different business segments. For the bidding process primarily in respect of our rail fastening system, we established the Internal Policy on Sales which regulates the initiation, approval and management procedures of bidding projects. For sales of welding wire products, we established the Regulation and Sales Procedures of Welding Materials which stipulates the process of customer identification verification, credit assessment, agreement approval and accounts receivable management.

All departments conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security. Self-evaluation has been conducted annually to confirm that control policies are properly complied with by each department.

Corporate Governance Report (Continued)

The management, in co-ordination with division/department heads, assessed the likelihood of risk occurrence, provided treatment plans, and monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The management has confirmed to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the year ended 31 December 2022. The Board has reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2022, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experience and relevant resources.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. In addition, the Internal Audit Department reviewed the subsisting continuing connected transactions entered into by the Group and the adequacy and effectiveness of the internal control procedures in place to ensure that the continuing connected transactions had been conducted in compliance with the Listing Rules, and provided the findings to the Independent Non-executive Directors to assist them in performing their annual reviews.

Whistleblowing procedures are in place to facilitate employees of the Company to raise, in confidence, concerns with the head of Internal Audit Department/Chief Executive Officer/Audit Committee about possible improprieties in any matters of the Company.

Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

The Internal Control Department shall regularly report to the International Trade Audit Committee ("the ITAC"). The members of the ITAC include the general manager of Group companies, manager of welding material division and chief financial officer, and their responsibilities include monitoring the Group's exposure to risk of sanction laws and execution of relevant internal control.

Prior to judgment of whether seizing any business opportunities from sanctioned countries and/or sanctioned person, the Internal Control Department shall assess the relevant sanctions risk and report to the ITAC. The Internal Control Department has to submit the relevant business transaction documents of all sanctioned countries and/or sanctioned customers or potential customers to the ITAC. The ITAC shall review and approve all the relevant business transaction documents of all sanctioned countries and/or sanctioned customers or potential customers. The ITAC will review the data from counterparty of relevant contracts (including identity and business nature etc.) and draft of business transaction documents. The ITAC checks the counterparty of contract against several lists (as publicly available data) of restricted parties and countries (including but not limited to any government, individual or entity as the sanctioned targets of Office of Foreign Assets Control of the United States Department of the Treasury) maintained by the European Union, United Nations or Australia, and determines whether the counterparty belongs to or is owned or controlled by person(s) located in sanctioned countries or sanctioned person(s). In the event of discovering any potential sanction risks, the ITAC will seek advices from external international legal advisors with necessary professional knowledge and experiences of international sanction laws.

Corporate Governance Report (Continued)

To ensure our compliance with our undertakings to the Stock Exchange, the ITAC will persistently monitor the use of proceeds from Global Offering and any other proceeds raised by any other means on the Stock Exchange, in order to ensure that such proceeds will not be used for, directly or indirectly, subsidizing or facilitating any activities or businesses with any sanctioned countries or persons restricted under international sanction laws and regulations or between any sanctioned countries or persons, or subsidizing or facilitating such activities or business for the benefits of such countries or persons. The ITAC shall regularly review the Company's internal control policies and procedures in relation to the matters of sanction laws. When the ITAC considers as necessary, the Company will engage the external international legal advisors with necessary professional knowledge and experiences of international sanction laws for seeking recommendations and advices. If necessary, the external international legal advisors will provide training courses of sanction laws to Directors, senior management, the Legal Affairs Department and other relevant individuals and assist them to evaluate the potential sanction risks in our daily operations. The ITAC will convene at least two meetings every year to monitor our exposure to sanction law risks and submit report to the ITAC as soon as possible after such meetings.

The Company has also in place the Anti-Corruption Policy to safeguard against corruption and bribery within the Company. The Company has an internal reporting channel that is open and available for employees of the Company to report any suspected corruption and bribery. Employees may also report to their department head and the department head will report relevant information collected to the head of internal audit department. If a department head is involved or otherwise, the matter may be referred directly to the Chief Executive Officer or the Chairman of the Board. If the Chairman of the Board is involved, such matter may be submitted directly to the audit committee, which is responsible for investigating the reported incidents and taking appropriate measures. The Company continues to carry out anti-corruption and anti-bribery activities to cultivate a culture of integrity, and actively organizes anti-corruption training and inspections to ensure the effectiveness of anti-corruption and anti-bribery.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2022.

The Directors have prepared the financial statements in accordance with China Accounting Standards for Business Enterprises promulgated by the Ministry of Finance. Appropriate accounting policies have also been used and applied consistently except the adoption of revised standards, amendments to standards and interpretation.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The financial statements of the Company are prepared on a going concern basis, the Directors are of the view that they give a true and fair view of the financial position, performance and cash flow of the Group for the year ended 31 December 2022, and the disclosure of other financial information and report therein complies with relevant legal requirements.

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report of this Annual Report.

Corporate Governance Report (Continued)

AUDITORS' REMUNERATION

The Company has appointed Pan-China Certified Public Accountant LLP as the auditor of the Company's 2022 consolidated financial statements prepared under China Accounting Standards for Business Enterprises.

The remuneration for the year ended 31 December 2022 paid or payable to the Company's auditors, Pan-China Certified Public Accountant LLP for audit services amounted to RMB1.6 million (including value added tax and the amount excluding tax was approximately RMB1.5 million).

COMPANY SECRETARY

Mr. Zhang Chao resigned as the joint company secretary of the Company with effect from 17 January 2023.

Following the resignation of Mr. Zhang, Ms. Ng Wai Kam, a manager of Tricor Services Limited (an external service provider), as the other joint company secretary of the Company who meets the requirements of a company secretary under Rule 3.28 of the Listing Rules, will remain in office and act as the sole company secretary of the Company. Ms. Ng's primary contact person at the Company is Mr. Zhang Chao.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

Ms. Ng Wai Kam has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year.

SHAREHOLDERS' RIGHTS

The Company engages with Shareholders through various communication channels and a Shareholders' communication policy is in place to ensure that Shareholders' views and concerns are appropriately addressed. The policy is regularly reviewed to ensure its effectiveness. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the Shareholders' approval.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Shareholders holding 10% or more Shares (individually or together with others) shall be entitled to request for an extraordinary general meeting.

The Board of Directors shall give a written reply on agreeing or disagreeing to convene an extraordinary general meeting of Shareholders within 10 days upon receipt of the request.

Putting Forward Proposals at Annual General Meetings

When the Company convenes a Shareholders' general meeting, the Board, Supervisory Board and Shareholders individually or jointly holding 3% or more of Shares of the Company shall be entitled to propose motions in writing to the Company. The contents of the motions shall fall within the scope of duties of the Shareholders' general meeting, have definite topics and specific matters for resolution and comply with the relevant requirements of the laws, administrative regulations and Articles of Association.

Corporate Governance Report (Continued)

Shareholders individually or jointly holding 3% or more of the Shares of the Company shall be entitled to propose ad hoc motions and submit to the convener in writing 10 days prior to the convening of the Shareholders' general meeting. The convener shall issue a supplemental notice of Shareholders' general meeting to other Shareholders within 2 days after the receipt of such proposal and incorporate the motions into the agenda of such meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Registered Office and Headquarters:

No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province,
The People's Republic of China

Additional Registered Address:

No. 268 Lianzhou East Road, Gaocheng District, Shijiazhuang City, Hebei Province,
The People's Republic of China

Principal Place of Business in Hong Kong:

5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong

Email: yichenshiye@hbyc.com.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above addresses indicating "To the Board or Company Secretary" and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS/ INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

During the year ended 31 December 2022, the Company held the annual general meeting on 31 May 2022 and two extraordinary general meetings on 18 March 2022 and 13 September 2022 respectively, separate resolutions were proposed at the general meeting for each substantial issue, including the proposed extension of the validity period of each of the resolution concerning the A Share Offering and the authorisation concerning A Share offering, the proposed adoption of H shares award scheme and election of executive Director, respectively.

Corporate Governance Report (Continued)

Independent Non-executive Directors and Non-executive Directors have attended general meetings to gain and develop a balanced understanding of the view of Shareholders. The Directors' attendance records are as follows:

Name of Directors	AGM Attendance	EGM Attendance
Mr. Zhang Haijun	1/1	1/2
Mr. Wu Jinyu	1/1	1/2
Mr. Zhang Chao	1/1	1/2
Mr. Zhang Lihuan	1/1	1/2
Ms. Ma Xuehui	1/1	1/2
Ms. Gu Xiaohui ^{#1}	1/1 ^{#2}	2/2 ^{#2}
Ms. Zheng Zhixing ^{#3}	0/0 ^{#4}	1/1 ^{#4}
Mr. Jip Ki Chi	1/1	2/2
Mr. Wang Qi ^{#5}	0/0 ^{#6}	1/1 ^{#6}
Mr. Zhang Liguó	1/1	2/2
Mr. Wang Fujū ^{#7}	0/0 ^{#8}	1/1 ^{#8}

Notes:

- ^{#1} Resigned on 13 September 2022
^{#2} Up to 13 September 2022
^{#3} Appointed on 13 September 2022
^{#4} Since 13 September 2022
^{#5} Resigned on 13 April 2022
^{#6} Up to 13 April 2022
^{#7} Appointed on 31 May 2022
^{#8} Since 31 May 2022

Shareholders' Communication Policy

The Company has in place a Shareholders' Communication Policy. The policy aims at promoting effective communication with Shareholders and other stakeholders, encouraging Shareholders to engage actively with the Company and enabling Shareholders to exercise their rights as Shareholders effectively. The Board reviewed the implementation and effectiveness of the Shareholders' Communication Policy and the results were satisfactory.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(a) *Corporate Communication*

"Corporate Communication" as defined under the Listing Rules refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the following documents of the Company: (a) the Directors' report, annual accounts together with a copy of the auditor's report and, where applicable, its summary financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form. The Corporate Communication of the Company will be published on the Stock Exchange's website (www.hkex.com.hk) in a timely manner as required by the Listing Rules. Corporate Communication will be provided to Shareholders and non-registered holders of the Company's securities in both English and Chinese versions or where permitted, in a single language, in a timely manner as required by the Listing Rules. Shareholders and non-registered holders of the Company's securities shall have the right to choose the language (either English or Chinese) or means of receipt of the Corporate Communication (in printed form or through electronic means).

(b) *Announcements and Other Documents pursuant to the Listing Rules*

The Company shall publish announcements (on inside information, corporate actions and transactions etc.) and other documents (e.g. Articles of Association) on the Stock Exchange's website in a timely manner in accordance with the Listing Rules.

Corporate Governance Report (Continued)

(c) *Corporate Website*

Any information or documents of the Company posted on the Stock Exchange's website will also be published on the Company's website (<http://www.hbyc.com.cn>). Other corporate information about the Company's business developments, goals and strategies, corporate governance and risk management will also be available on the Company's website.

(d) *Shareholders' Meetings*

The annual general meeting and other general meetings of the Company are primary forum for communication between the Company and its Shareholders. The Company shall provide Shareholders with relevant information on the resolutions(s) proposed at a general meeting in a timely manner in accordance with the Listing Rules. The information provided shall be reasonably necessary to enable Shareholders to make an informed decision on the proposed resolution(s). Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at the meetings for and on their behalf if they are unable to attend the meetings. Where appropriate or required, the Chairman of the Board and other Board members, the chairmen of board committees or their delegates, and the external auditors should attend general meetings of the Company to answer Shareholders' questions (if any). The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent Shareholders' approval.

(e) *Shareholders' Enquiries*

Enquiries about Shareholdings

Shareholders should direct their enquiries about their shareholdings to the Company's H share registrar, Computershare Hong Kong Investor Services Limited, *via its online holding enquiry service at Computershare Investor Services Limited, or send email to hkinfo@computershare.com.hk or call its hotline at (852) 2862 8555, or go in person to its public counter at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

Enquiries about Corporate Governance or Other Matters to be put to the Board and the Company

The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send any enquiries to the Board by email: yichenshiye@hbyc.com.cn or by post to No. 1 Yichen North Street, Gaocheng District, Shijiazhuang City, Hebei Province, China.

(f) *Other Investor Relations Communication Platforms*

Investor/analysts briefings, roadshows (both domestic and international), media interviews, marketing activities for investors and specialist industry forums etc. will be launched on a required basis.

Amendments to Constitutional Documents

During the year under review, the Company has not made any changes to its Articles of Association. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

Corporate Governance Report (Continued)

NON-COMPETE UNDERTAKING

The Controlling Shareholders of the Company have given the irrevocable Non-compete Undertaking in favour of the Company. Pursuant to the Non-compete Undertaking, each of the Controlling Shareholders has undertaken not to, directly or indirectly, carry on, invest in or be engaged in any business which would or might compete with the business currently and from time to time engaged in by the Group, and to provide the Company and the Directors from time to time (including the Independent Non-executive Directors) with all information necessary for the annual review by the Independent Non-executive Directors with regard to compliance with the terms of the Non-compete Undertaking by the Controlling Shareholders and the enforcement of the Non-compete Undertaking.

Each of the Controlling Shareholders has confirmed that during the period from the Listing Date to 31 December 2022, he/she had strictly complied with the terms of the Non-compete Undertaking and there was no matter which would require deliberation by the Board in relation to compliance and enforcement of the Non-compete Undertaking. All the Independent Non-executive Directors have reviewed the matters relating to enforcement of the Non-compete Undertaking and consider that the terms of the Non-compete Undertaking have been complied with by each of the Controlling Shareholders.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. REPORTING STANDARD

This Environmental, Social and Governance Report (the “**ESG Report**”) is prepared in accordance with the “Environmental, Social and Governance Reporting Guide” set out in Appendix 27 to (“**the Listing Rules**”) on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), to allow stakeholders to understand the environmental, social and governance (“**ESG**”) policies, measures and performance of Hebei Yichen Industrial Group Corporation Limited (the “**Company**”) and its subsidiaries (hereinafter referred to as “**we**”, “**us**” or “**our**”) other than our financial results.

The report covers the information on the Company’s ESG management directions and strategies from 1 January 2022 to 31 December 2022 (the “**Reporting Period**”). The scope of the ESG Report is selected in compliance with standard requirement and covers locations where the major business processes of the Group are situated, including the headquarters of the Group in Gaocheng District, Shijiazhuang City of Hebei Province and Shenyang segment in Shenyang City of Liaoning Province, and the subsidiary Xingtai Juneng for the research and development, manufacturing and sales of railway sleeper products.

ESG Report is prepared by the Company based on the following three reporting principles:

Materiality	The ESG management approach of the Company is designed and centered on key fields that are deemed to have a significant impact on the Company. These key fields will be illustrated in the section headed “STAKEHOLDERS AND MATERIALITY ASSESSMENT” in the ESG Report.
Quantification	Disclosure is presented in a quantifiable format where applicable, and the key performance disclosure is accompanied by an explanation of the methodology and the sources of the conversion factors used.
Consistency	The key performance of annual ESG Report is calculated by using the same ESG Report framework for a meaningful comparison.

II. COMPANY BACKGROUND

The Company is a leading rail fastening system provider in China’s railway industry. We have over twenty years of experience in providing rail fastening systems, with a well-established quality assurance system and comprehensive inspection and testing methods, and are equipped with physical laboratories, chemical analysis rooms and welding laboratories, universal hydraulic testing machines, fatigue testing machines, spectrums, metallographic microscopes, and Brinell/Rockwell/Vickers hardness testers, etc.

Environmental, Social and Governance Report (Continued)

Our supply of rail fastening systems covers the whole country, including all the “Four Vertical and Four Horizontal” high-speed railway corridors. Leveraging on our rich experience, we have become one of the few rail fastener system manufacturers in China capable of producing the core components of rail fastener systems. We are able to provide all the components of rail fastener systems continuously. We have also developed a comprehensive portfolio of rail fastener systems to meet the needs of all fields of the rail industry, covering every aspect from high-speed and heavy-haul railway series to regular and urban rail transit ones.

We seek development opportunities on a broad scope both domestically and abroad, and serve domestic and foreign customers with the corporate spirit of “diligence, dedication, innovation and determination” and by adhering to the strategy of “scientific management, excellent quality, advanced technology and first-class service”. In addition to excellent pre-sales and after-sales tracking services, we continuously develop new products according to the requirements of users and market information, keeping abreast of high technology.

We are one of the seven preassembled high-speed railway fastening system providers in China with product certification by China Railway Test & Certification Center, and the only private company in Mainland China that has attained such certification.

In recent years, we have completed a number of “China First” milestone projects and participated in high-speed railway, heavy-haul railway and other railway projects with harsh operational environment.

III. OUR ESG GOVERNANCE STRUCTURE AND STRATEGIES

We acknowledge the importance of effective ESG initiatives to business operation. The approach of the Company's ESG work is governed by the board of directors (the “**Board**”) of the Company to ensure that the ESG strategies reflect the core values of the Company. While working together to improve the Company's value and performance, the Board and the management also assume the responsibility for assessing and identifying risks in relation to ESG matters.

We extend the scope of ESG initiatives to business level in compliance with the requirements of reporting standard. We also set up an ESG working group, which is responsible for communicating closely with various departments, maintaining a full understanding of their work as well as collecting and analyzing ESG issues that stakeholders may concern in their daily contact with stakeholders. The ESG working group will collect feedbacks from stakeholders directly in the form of questionnaires when necessary.

Environmental, Social and Governance Report *(Continued)*

After sorting and integrating these ESG issues, the working group will assist the Board in developing an assessment of the materiality of the ESG issues. These issues will be screened and ranked in order of the materiality, categorised into four major aspects of environment, staff, services or social responsibility, and the results will be presented and discussed to the ESG Leading Working Group. The ESG Leading Working Group will also analyse the risks and opportunities of the ESG issues from the materiality assessment and then report its analysis to the Board.

The Board will provide advice on the Company's ESG strategy based on the results of the assessments and analysis from time to time, while the ESG working group will also help to explain the Company's ESG strategies and policies to all functional departments, which could ensure the effective implementation of the Company's employees in their daily work. The Board assumes full responsibility for the ESG strategies and reporting of the Group, and implements a top-down governance model with full support from the ESG working group. Meanwhile, two-way communication between different levels is carried out to foster a good culture and atmosphere for sustainable development among the teams of the Company.



Environmental, Social and Governance Report (Continued)

IV. STAKEHOLDERS MATERIALITY ASSESSMENT

STAKEHOLDER

The Company continuously communicates with its stakeholders (including shareholders, customers, staff, suppliers, regulators and the public) through different channels to safeguard their interests, so as to determine the long-term development direction of the Company and maintain close relations with them.

The following sets out groups of stakeholders, their expectations and typical communication channels with the Company:

Stakeholders	Expectations	Communication Channels
Governments and regulators	<ul style="list-style-type: none"> ✧ Compliance operation ✧ Tax payment ✧ Business and economic development ✧ Social contribution 	<ul style="list-style-type: none"> • Financial reports, announcements, notices and other public information • Communication by e-mail and phone call • Meeting/seminar participation • Meeting with government officials
Shareholders and investors	<ul style="list-style-type: none"> ✧ Return on investment ✧ Information disclosure ✧ Protection of shareholders' interests ✧ Compliance operation and management ✧ Anti-corruption 	<ul style="list-style-type: none"> • Financial reports, announcements, notices and other public information • General meetings • Roadshow/telephone conference/conference with investors/shareholders • Enquiry through phone call/e-mail • Investors on-site visits • Information disclosure on the websites of the Stock Exchange and the Company
Customers	<ul style="list-style-type: none"> ✧ Product and service quality ✧ Fair and reasonable price ✧ Contract performance ✧ Smooth channels for complaint 	<ul style="list-style-type: none"> • Daily communications • Official meetings with customers • On-site inspection • E-mail
Suppliers	<ul style="list-style-type: none"> ✧ Fair competition ✧ Long-term business relationship ✧ Fair and reasonable price ✧ Contract performance 	<ul style="list-style-type: none"> • Daily communication • Meeting with suppliers • On-site inspection • E-mail

Environmental, Social and Governance Report (Continued)

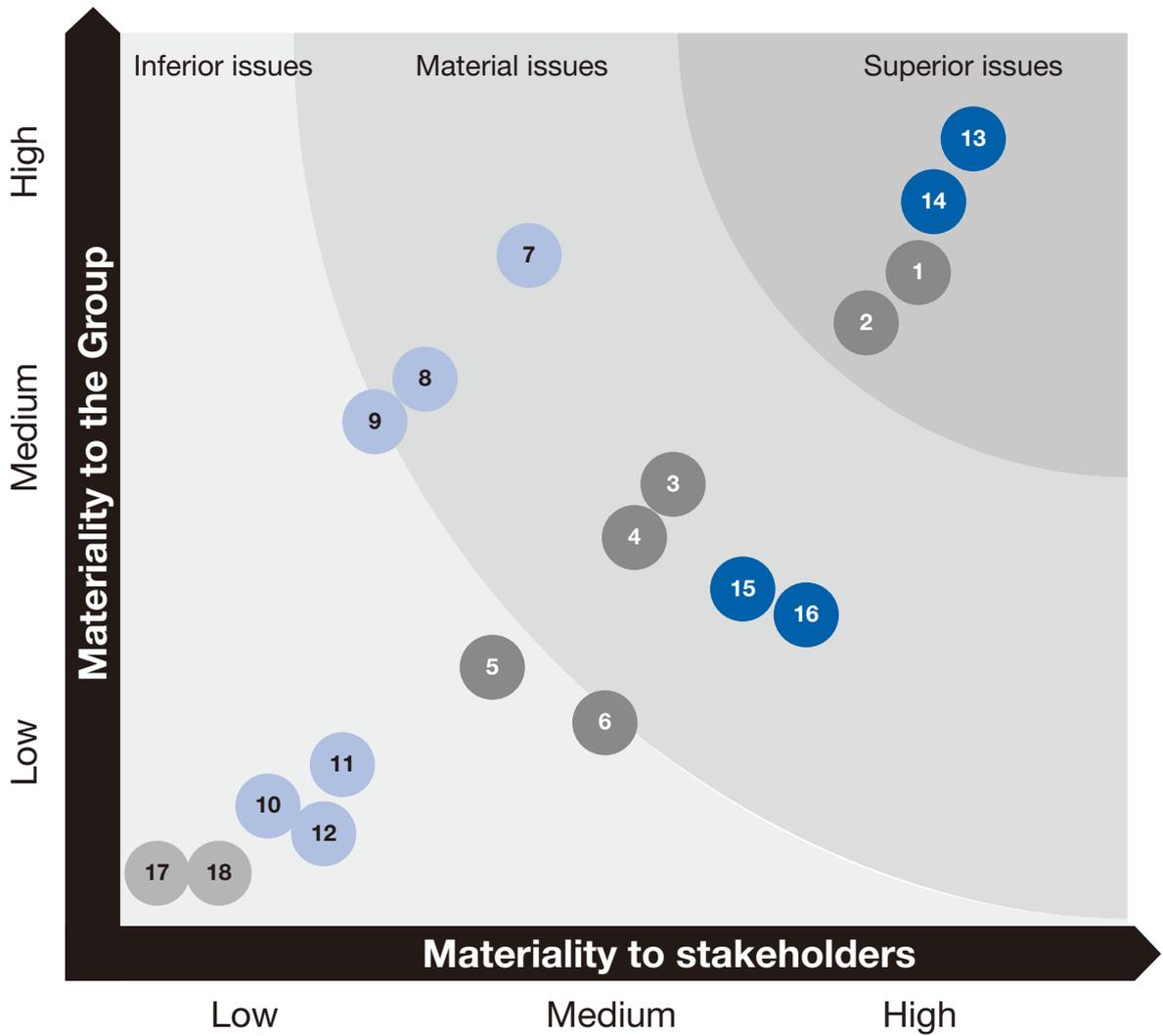
Stakeholders	Expectations	Communication Channels
Staff	<ul style="list-style-type: none"> ✧ Protection of staff's interests ✧ Occupational health and safety ✧ Staff welfare improvement ✧ Training and career development space ✧ Career development and opportunities 	<ul style="list-style-type: none"> • Staff activities • Staff forums • Staff regular memoranda • Collection of staff opinions through direct communication • Staff training, seminars and briefings • Team building and other cultural events
Local communities, NGOs, potential customers and the public	<ul style="list-style-type: none"> ✧ Employment opportunity ✧ Ecological environment ✧ Climate change ✧ Community development ✧ Public welfare ✧ Reduction of pollutant emission 	<ul style="list-style-type: none"> • Charity events • Community investment and service • Stakeholder engagement • Environmental protection activities
Media	<ul style="list-style-type: none"> ✧ Information transparency ✧ Sound relationship with the media 	<ul style="list-style-type: none"> • Information disclosure on the websites of the Stock Exchange and the Company • Financial reports, announcements, notices and other public information

MATERIALITY ASSESSMENT

After the above communication with stakeholders during the Reporting Period, the Company collected a number of potential ESG-related issues and categorised them into various aspects under the HKEx ESG Guide, and further estimated the impact of these ESG issues on the Company to evaluate their materiality based on the further internal and external information about the Company from employees and professional consultant companies on these issues. Afterwards, the Board and the management carefully analysed such issues and worked out the materiality assessment results as follows.

 Environment	 Employees	 Business	 Community
<ol style="list-style-type: none"> 1. Energy usage 2. Water resource usage 3. Waste management 4. Air emission 5. Climate change 6. Greenhouse gases management 	<ol style="list-style-type: none"> 7. Occupational health and safety 8. Occupational development and opportunity 9. Employee welfare 10. Child labour and forced labour 11. Talent turnover 12. Employee training 	<ol style="list-style-type: none"> 13. Compliance operation 14. Product quality and safety 15. Intellectual property rights 16. Supply chain management 	<ol style="list-style-type: none"> 17. Community involvement 18. Public welfare event

Environmental, Social and Governance Report (Continued)



Based on these results, the Company will constantly improve its ESG performance to meet the expectations of its stakeholders and address the risks faced by the Company. During the Reporting Period, the details of our work and key performance indicators (KPIs) defined in the ESG Reporting Guide and considered as relevant and significant to the Company’s operations will be introduced in the following four subject areas, namely “Our Environment”, “Our Employees”, “Our Business” and “Our Community”.

Environmental, Social and Governance Report (Continued)

V. OUR ENVIRONMENT

The Company, as a leading rail fastening system provider in the PRC railway industry, is also engaged in the research and development, manufacturing and sales of such products as welding wire and railway sleepers, in addition to the manufacturing of rail fastening generated systems. The railway transit equipment manufacturing industry is not a heavily polluting industry. The pollutants generated by the Company in production process include wastewater, exhaust gases, solid wastes and noises, and the discharge of all pollutants is in compliance with the relevant national standards. The Company has obtained the “Sewage Discharge Permission” (《排污許可證》) issued by Administrative Approval Bureau of Gaocheng District, Shijiazhuang.

The Company pays close attention to and strictly complies with the requirements stated in the national environmental laws and regulations, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Environmental Protection Tax Law of the PRC (《中華人民共和國環境保護稅法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》), the Management Measures for Energy Conservation (《節約用電管理辦法》), the Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》) and the Law of the PRC on Environmental Impact Assessment (《中華人民共和國環境影響評價法》).

Based on the principle of environmental protection, energy saving and green, the Company has formulated a manual for the quality, environmental and occupational health and safety management system, and obtained an environmental management certificate that meets the requirements of ISO14001:2015. Furthermore, we have formulated the Energy Management System (《能源管理制度》), which stipulates the Company’s energy management organisation and post responsibility system, and the management requirements and standards for the measurement of electricity, water and gas consumption, statistical reports, consumption costs and other aspects. The Company has improved energy utilisation rate by strengthening energy management, reducing material consumption and eliminating waste, with energy conservation and consumption reduction as the core.

Our KPI results relating to emissions and wastes disposal as well as energy and resources consumption are presented in the following paragraphs.

Environmental, Social and Governance Report (Continued)

A1: Emissions and Wastes*Air and Greenhouse Gas Emissions*

Details of exhaust gas and greenhouse gas emissions by the Company for the year are summarised as follows:

(Unit: kg) Type of air emissions	Sources of emission	2022		2021	
		Emissions	Density (Note 1)	Emissions	Density (Note 1)
Nitrogen oxides (NOx)	<ul style="list-style-type: none"> Natural gas Company's vehicles 	743.08	4.09	687.99	4.03
Sulphur dioxides (SOx)	<ul style="list-style-type: none"> Natural gas Company's vehicles Forklifts Tractor shovels 	184.10	1.01	169.65	0.99
Particulate matters (PM) ^(Note 2)	<ul style="list-style-type: none"> Natural gas Company's vehicles 	73.93	0.41	68.31	0.40
Total		1,001.11	5.51	925.95	5.42

(Unit: CO ₂ e (tonne)) ^(Note 3) Scope of greenhouse gas emission	Sources of emission	2022		2021	
		Emissions	Density (Note 1)	Emissions	Density (Note 1)
Scope 1 Direct emission	<ul style="list-style-type: none"> Natural gas consumption Unleaded gasoline and diesel consumed by vehicles Refrigerant 	1,075.90	5.92	1,160.31	6.79
Scope 2 Indirect emission	<ul style="list-style-type: none"> Consumption of electricity 	96,556.18	531.37	101,803.15	595.65
Total		97,632.08	537.29	102,963.46	602.44

Environmental, Social and Governance Report (Continued)

Note 1: Density is calculated by dividing total emissions by total annual production (kilotonne).

Note 2: It was mainly attributable to natural gas consumption for heating by the Company and fuel consumption by its vehicles. Certain amount of dust (i.e. particulate matters (PM)) is also produced during the casting process of the Company. Nevertheless, with the majority of dust eliminated via dust removal devices, the residual dust is fugitive and cannot be accurately measured and is therefore not included in the table above.

Note 3: Carbon dioxide equivalent ("CO₂e") (tonne) represents a unit of measurement based on the greenhouse effect produced per tonne of CO₂ to measure and compare the greenhouse effect from the emissions of different greenhouse gases, including carbon dioxide (CO₂), methane (CH₄) and nitrous oxide (N₂O).

As natural gas and electricity comprise the main energy consumption by the Company, the environmental impact mostly comes from indirect greenhouse gas emissions, the direct carbon emissions are relatively low. This is followed by the impact from the emissions from the consumption of unleaded gasoline and diesel by the Company's vehicles which belong to the mobile sources of greenhouse gas emissions. To further reduce the air and greenhouse gas emissions from our vehicles, the Company has replaced all its forklifts for transportation purpose with those in line with the National III emissions standard, with exhaust purification devices installed coupled with regular maintenance to ensure the best fuel efficiency performance.

As for the dust generated during the casting process, the dust removal fan will be turned on before the intermediate frequency stove operated to ensure the normal operation of the dust removal facilities during the production. We conduct rigorous control and regular maintenance to ensure normal operation of our dust removal facilities and reduce the concentration of dust emissions. Meanwhile, we have taken rectification measures for fugitive and non-fugitive dust emissions. For non-fugitive dust emissions, the dust upon processing by water spray and bag-type dust filters is collected by air collection hoods before the exhaust gas is discharged through a 15-metre high mast. As for fugitive dust emissions, our production processes take place in sealed enclosures which reduce such dust emissions. A micro-mist dust reduction system is installed in our workshop aisles to ensure air humidity and mitigate fugitive emissions. In addition, a fresh air system is installed on the top of our workshops to ensure air circulation in workshops.

During its production process, the Company also consumed natural gas for its boilers. Burning natural gas mainly generates nitrogen oxides, sulphur dioxides and direct greenhouse gas emissions.

During the Reporting Period, the Company's indirect carbon emission in Scope 2 amounted to approximately 96,556.18 tonnes (2021: 101,803.15 tonnes), which resulted from the use of purchased electricity in supplying power to the electric furnaces, representing a decrease of 5.15% in emissions and a reduction of 10.79% in intensity as compared with last year. To reduce energy consumption and electricity generated by power generation and respond to the nation's call for clean energy, the Company's photovoltaic power generating units that are installed in unused space on rooftops of its factories generated a total of about 705 MWh (2021: 633 MWh) of electricity for the year, representing an increase of 11.37% as compared with last year, with intensity of electricity consumption increased by 4.88%.

Environmental, Social and Governance Report (Continued)

The total air and greenhouse gas emissions increased by 5.33 tonnes, with density decreased by 10.81% as compared with last year. The Group has set targets for total air and greenhouse gas emissions which take 2021 as the baseline year and aim to reduce our air emission intensity by 5% (air emission (kg)/total annual production (kilotonnes)) and greenhouse gas emission intensity by 5% (CO₂e (tonne)/total annual production (kilotonnes)) over the next 3 years.

The Company's emissions reduction measures are detailed in the part headed "Environmental Protection Measures" below.

Hazardous and Non-hazardous Wastes

The hazardous and non-hazardous wastes generated by the Company for the year is summarised as follows:

(Unit: tonnes)		2022		2021	
Type of waste	Hazardous/ Non-hazardous	Amount generated	Density (Note 1)	Amount generated	Density (Note 1)
Waste motor oil	Hazardous	7.26	0.04	6.00	0.04
Waste sand	Non-hazardous	6,804.00	37.44	7,582.50	44.36
Waste solvent	Hazardous	0.97	0.01	1.56	0.01
Waste activated carbon	Hazardous	5.70	0.03	0.63	<0.01

Note 1: Density is calculated by dividing total emissions by total annual production (kilotonne).

Hazardous wastes generated by the Company mainly include waste motor oil, waste cutting solvent and Dacromet waste residues generated in the course of production. Other facilities requiring activated carbon to enable absorption and desorption processes for treating exhaust gases. This led to the generation of waste activated carbon. During the disposal of hazardous waste, certain waste motor oil will be transferred and reused in the thread rolling process of equipment workshops, and stored in hazardous waste storage rooms that meet the requirements of safety regulations. The Company arranges qualified third parties for the recycling of hazardous waste that cannot be reused each year.

In respect of non-hazardous wastes, our foundries generate waste sand, representing a decline of approximately 800 tonnes, with density decreased by 15.60% as compared with last year, which was attributable to the higher efficiency of recycling and reuse. The Company will also generate scrap raw materials during production. These non-hazardous wastes raw materials are collected, classified, reorganised, stored, recycled and reused by the Company in a centralised manner. The Group has set targets for density of waste sand generation which take 2021 as the baseline year and aim to reduce our waste sand generation intensity by 5% (waste sand generation (tonne) / total annual production (kilotonnes)) over the next 3 years.

Other non-hazardous wastes that are not from raw materials (including the packaging material from suppliers, domestic waste and office waste) were collected by the environmental and sanitation company of the industrial park in a centralised manner, and transported to landfill area for landfilling and burying. Given the small amount of such wastes, no statistics are provided herein.

Environmental, Social and Governance Report (Continued)

A2: Use of Energy and Resources

The Company has always paid great attention to energy conservation and complied with the requirements of the Energy Conservation Law of the PRC (《中華人民共和國節約能源法》) for the purpose of protecting the environment and enhancing operational efficiency.

Details of our energy consumption during the year and the previous year are as follows:

Type of energy	Unit	2022		2021	
		Amount consumed	Density (Note 1)	Amount consumed	Density (Note 1)
Electricity	MWh	109,895	604.78	108,716	636.09
Including:					
Purchased electricity	MWh	109,189	600.90	108,083	632.38
Self-generated power (Note 2)	MWh	705	3.88	633	3.70
Natural gas (Note 3)	m ³	331,321	1,823.34	304,327	1,780.60
Gasoline (Note 3)	litres	47,952.84	263.90	66,554	389.40
Diesel (Note 3)	litres	72,843	400.87	80,411	470.48

	Unit	2022	2021
Total water consumption	tonnes	15,716.00	15,269.50
Density (note 1)	tonnes	86.49	89.34

Note 1: Density is calculated by dividing total emissions by total annual production (kilotonne).

Note 2: Method of self-power generation: solar power.

Note 3: A total of approximately 4,709.66 MWh of non-renewable fossil fuel was consumed directly, which represented a density of approximately 25.92 MWh. Conversion to MWh as calculation unit refers to the Energy Statistics Manual published by the International Energy Agency.

The Company mainly consumes energy such as natural gas and electricity during production. During the production of projects, the use of natural gas and the discharge of exhaust gases are in compliance with relevant national standards. The cutting of product generates a tiny amount of suspended particles, which is handled by maintaining an environment with good ventilation and installing mechanical exhaust devices in workshops. 331,321 m³ of natural gas was consumed during the year, which represented an increase of approximately 9%, with density increased by 2.40% from last year. Such increase was due to higher production volume during the year as compared with last year. Approximately 109,895 MWh of electricity was consumed during the year, basically maintaining at the same level as compared with last year, with density decreased by 4.92%.

Environmental, Social and Governance Report (Continued)

During the year, gasoline consumption decreased by 18,601 litres, with density decreased by 32.23%, and diesel consumption decreased by 7,568.48 litres, with density decreased by 14.80%, which was due to certain travel restrictions as a result of the pandemic.

The water used in factories mainly comprises water refill of the cooling system and domestic water consumption by staff. Water consumption during the year increased by 446.50 tonnes, with density decreased by 3.19% as compared with last year. For wastewater and sewage, the wastewater generated during production was recycled and not discharged to external environment. Wastewater from laboratories is mainly for site cleansing, which is after sedimentation and filtration, discharged together with staff's domestic wastewater to local wastewater treatment plants for centralised treatment. Though the cooling system requires a substantial amount of water as coolant, such water can be recycled and reused, which results in limited discharge. Rainwater is collected by rainwater hoppers and rainwater gullies, together with the surface water in plant area, discharged directly to the municipal pipe network of the industrial area outside the plant by underground pipe system. A small amount of water is also used for office area, causing relevant domestic sewage generated and discharged to municipal pipe network and collectively handled by relevant government authorities along with other community sewage. There was no issue in sourcing water that was fit for purpose.

The Group has set targets for four energy efficiency (electricity, natural gas, gasoline and diesel) and water resource use which take 2021 as the baseline year and aim to reduce emission intensity by 5% (MWh, m³, litres, tonnes/total annual production (kilotonne)) over the next 3 years.

Packaging Materials

Packaging materials used for packing finished products mainly include plastic and paper, the consumption of which during the year and the previous year are as follows:

(Unit: tonnes) Type	2022		2021	
	Consumption	Density (Note 1)	Consumption	Density (Note 1)
Paper	856	4.71	868	5.08
Plastic	1,593	8.77	1,437	8.41
Total	2,449	13.48	2,305	13.49

Note 1: Density is calculated by dividing total emissions by total annual production (kilotonne).

During the year, plastic packaging materials consumption of the Company increased by 156.37 tonnes as compared with last year, with intensity increased by 4%, which was attributable to higher production volume of the Company as compared with last year. Paper packaging materials consumption decreased by 11.48 tonnes as compared with last year, with density decreased by 7%, which was attributable to the certain results achieved by the Company's vigorous measures to recycle and reuse packaging materials.

Details of our environmental conservation measures regarding energy, water and packaging materials are illustrated in the following section headed "Environmental Protection Measures".

Environmental, Social and Governance Report (Continued)

A3: Environment and Natural Resources

The Company's business activities will not cause a significant impact on the environment and natural resources. During the construction of the Company's projects, certain noises are generated from machineries, air pumps, sawing machine, etc. Air pumps used for projects are set in separate rooms, causing no interference to the outside. Measures have been in place, such as sealed enclosures and sound insulation materials for workshops, and double-layer sound insulation for windows, etc. The operation of these measures meets the requirements of Class 2 standards of the "Emission Standard for Industrial Enterprises Noise at Boundary" (GB12348-2008) (《工業企業廠界環境噪聲排放標準》). Hence, limited impact is caused to the surrounding environment. The Company will continue to achieve "One Control, Double Target-hits"; strictly implement the environmental protection "Three Simultaneous", i.e., simultaneous design, constructions and production, and strengthen production management and environmental management.

Exhaust gas was a primary source of pollution in the Company's production process. However, as mentioned above, the exhaust gas is transformed after going through an enhanced treatment process, with no significant impact on the environment, natural resource and natural habitat.

The Company attaches importance to environmental protection and implements its environmental policy by paying close attention to product manufacturing process, production practices and use of production materials, including recovery, proper processing and effective utilisation of wastes and resources as well as substitute materials, with the aim to prevent, reduce or control pollution, minimise the adverse effect on the environment, and improve the overall efficiency of the Company.

Environmental, Social and Governance Report (Continued)

A4: Climate Change

Climate change is a current global challenge that affects everyone's life. On 12 December 2015, the famous "Paris Agreement" was adopted at the 21st United Nations Climate Change Conference (Paris Climate Conference) (第21屆聯合國氣候變化大會(巴黎氣候大會)), which opened the global curtain of attention to climate change.

According to the proposed framework of Task Force on Climate Related Financial Disclosures, climate risks are classified into transitional risks (the adaptation challenges that companies may face in terms of policies, laws, technologies and markets) and physical risks (the impact of extreme weather events on companies). The Company established the "Meteorological Disaster Emergency Plan" (《氣象災害應急預案》) in accordance with the Production Safety Law of the PRC (《中華人民共和國安全生產法》), Meteorology Law of the PRC (《中華人民共和國氣象法》) and other national laws and regulations. Based on the policy of "Safety First, Risk Prevention and Integrated Management" and under the unified leadership of the Company, the plan implements the emergency management system of classified management and hierarchical responsibility, carries out the responsibility system of administrative leaders at all levels, and seriously implements various precautionary measures. It organises accident rescue quickly and effectively to minimise accident losses, so as to ensure the safety of the staff who worked in the Company's area and the safety of facilities and equipment. The plan has set out a detailed risk factor and risk analysis, defined the responsibilities of each department and disclosed the telephone number of the emergency duty room. In addition, the Group has also set up an accident emergency leading group. The chief commander is held by the administrative officer, and the deputy chief commander is held by the leader in charge of the unit, and the members are managed by various functions. Heads of departments and main production departments shall form and establish corresponding accident emergency working groups to be responsible for accident emergency work. The emergency leading group is responsible for organising drills on a regular basis and supervising and inspecting the performance of responsibilities of each unit in the plan. The Safety and Environmental Protection Office is responsible for organising relevant departments to compile, revise, change the Emergency Plan, and following-up and implementing the emergency measures. General Department is responsible for the organisation, deployment and daily inspection of emergency response. The emergency group is also grouped to make detailed arrangements for a series of emergency matters such as on-site public security of the accident, on-site accident rescue, on-site technical support, and post-accident investigation.

Its environmental protection measures implemented during the Reporting Period are as follows:

Environmental Protection Measures

- I. Post reminder slogans via the Company's public address system, large screens and bulletin boards and in public areas, such as reminder slogans to save water and paper conservation in office, production workshops and washrooms to improve the environmental protection awareness of employees and visitors.
- II. Place recycling bins in office and require employees to strictly separate waste.

Environmental, Social and Governance Report (Continued)

- III. Regularly update the policies and procedures of the Company, and incorporate environmental protection rules and standards into its daily work process. By such policies and procedures, we encourage employees to work in the following manners to save energy, resources and reduce greenhouse gas emissions.
1. In terms of production, carry out energy-saving publicity, organise energy-saving training, and actively promote the application of new energy-saving technologies, processes, equipment and materials;
 2. Turn off electronic equipment such as computers, printers and electric water heaters to save energy and reduce emissions when they are not in use or when people leave office;
 3. Advocate green travel and car-sharing for business trips to reduce carbon emissions; the vehicles of the Company are under unified management by the Administration Department, which will make reasonable arrangement for vehicle time and route after its approval of application;
 4. Regularly examine electronic equipment to ensure safety and operational efficiency. For enhancing power efficiency and saving electricity, the Company continued with the harmonic management of grid transformation during the year to improve the quality of electric power which mitigated the impact on the quality of industrial products, and commenced the schedule of the upgrade and replacement of equipment with low energy efficiency;
 5. Require the procurement department to prioritise high efficiency and energy-saving products when purchasing electric appliances, such as energy-saving motors, lamps and air conditioners;
 6. Classify waste into dry waste, wet waste and recyclable waste, and actively promote the knowledge of waste classification to enhance employees' awareness and relevant environmental protection knowledge in this regard.
- IV. Use the electronic system for office communication in the Company to minimise unnecessary meetings, document printing and physical document exchange, and reduce unnecessary travel, paper and print toner consumption, as well as indirect carbon emissions caused by express delivery.
- V. Sell the waste sand generated in casting process to external recycling parties as the raw material for bricks, so as to minimise the environmental impact.
- VI. Effectively utilise the residues of raw and auxiliary materials from the production process, and encourage resource reuse and recycling.

Environmental, Social and Governance Report (Continued)

- VII. Strictly monitor the consumption of raw and auxiliary materials in the production process to avoid unnecessary waste and encourage employees to make full use of raw materials.
- VIII. Adopt advanced technology and equipment to carry out energy saving transformation of the original equipment, in a bid to improve energy utilisation efficiency and process yield.
- IX. Adopt air compressors and water-cooled air pumps to turn waste heat from mass production process into energy, to supply heat to workshops and hot water for employees' domestic use, and reduce other energy consumption.
- X. Adhere to the principles of simplicity, high efficiency and convenient use for customers in the Company's product packaging, with more adoption of simple tonnage bags and cartons. The Company has packaging material recycling measures in place in certain areas, under which the Company may handle for its clients the packaging materials (such as tonnage bags) of such products that reach railway construction sites and get unloaded, with such packaging materials available for reuse after recovery.

Currently, the Company does not exhibit any behaviour or factors which may have a significant impact on nature and natural resources.

VI. EMPLOYEES

B1: Employment

During the Reporting Period, the Company strictly complied with the relevant requirements of laws and regulations such as the Labour Law of the PRC (《中華人民共和國勞動法》) and the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), to safeguard the legitimate rights and interests of its employees, treated all of them fairly regardless of race, gender or age, and prohibited employment discrimination. Meanwhile, the Company continued to enhance employees' benefits to reinforce their sense of belonging.

In line with the tenets of fairness, impartiality and merit-based selection, we have formulated the Administrative Measures for Staff Recruitment and Hiring (《職工招聘錄用管理辦法》) pursuant to the Labour Law and related regulations, to standardise the procedures for recruitment and employment. These procedures are also subject to constant amendments and updates as necessary, with the human resources department responsible for their implementation and management. In addition, to strengthen and improve the management of labour contracts and to safeguard the legitimate rights and interests of the Group and its employees, the Company has formulated the Labour Contract Management Regulations (《勞動合同管理規定》) to regulate the signing, performance, change, renewal, termination or rescission of contracts with our employees. When recruiting personnel, the Company must check the ID card of the recruited personnel, who must be at least 18 years old. Child labour is prohibited. Recruitment sources are also classified into internal recruitment and external recruitment, which are uniformly organised by the human resources department.

Environmental, Social and Governance Report (Continued)

In terms of employee remuneration management, the Remuneration Committee has formulated the Remuneration Management Measures (《薪酬管理辦法》) in line with the Company's strategic development plan, in an effort to be competitive externally and fair internally, allow its incentives system and restraint functions to play an effective role and improve employee motivation. The Company determine remuneration based on factors such as work content and ability, job performance and contribution to the Company. The human resources department is responsible for the interpretation, implementation and supervision of the revision and execution of organisational policies. The Company's remuneration is designed according to different levels of its organisational hierarchy, and focuses on reflecting the value of positions and individual contribution. The Company encourages employees on long-term service, to work for the continuous growth and sustainable development of the enterprise and share the accomplishments of its development.

Aside from that, the Company has set up bonuses to reward groups or individuals who have made significant contributions or outstanding performance. To attract special talents to join the Company and encourage technical, operational and management talents who have made achievements, the Company has established special talent subsidies.

In terms of employee promotion, the Company has established a performance assessment team responsible for performance assessment, studying and devising annual assessment indicators, coordinating disputes arising from assessment and reporting assessment results to management. The assessment takes place in the principle of fairness, openness and equality. Therefore, we have formulated the Outline for Comprehensive Performance Assessment (《綜合績效考核大綱》) to set out the assessment principles, indicators and measures.

In terms of holiday management, the Company has formulated the Staff Attendance Management Rules (《職工考勤管理細則》) to manage employees' working hours and holiday arrangements. Employees are entitled to fixed rest days, statutory holidays, wedding leave, funeral leave, maternity leave, work injury leave, personal leave and sick leave. Furthermore, in accordance with the Special Provisions on the Labour Protection of Female Employees (《女職工勞動保護特別規定》) issued by the State Council, the Company has also set out measures in the rules to regulate the management of female employees during lactation and protect their legitimate rights and interests.

Apart from basic salary, various allowances, endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund, the Company provides holiday gifts, subsidies for employees in need, heatstroke prevention supplies, etc., to ensure the quality of life of our employees. Furthermore, the Company has in place a supporting policy to reward current employees with child entering university, and provide each child who has been enrolled to university with an award of RMB5,000. Such policy fully reflects the Company's concern and support on the staff and their children.

Environmental, Social and Governance Report (Continued)

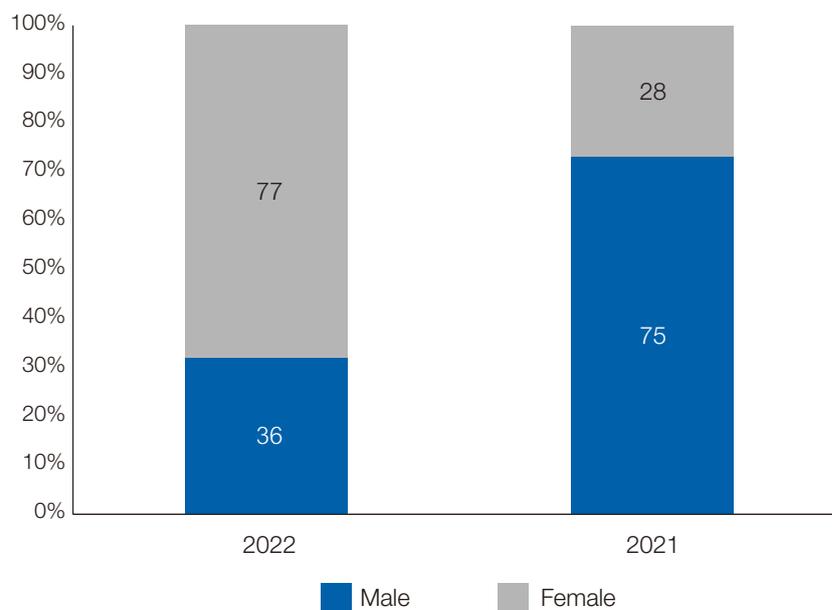
Our Workforce

As at 31 December 2022, the Company had a total of 1,369 employees, including 4 non-executive Directors, and 120 employees from our subsidiary Xingtai Juneng and Shenyang segment (2021: a total of 1,364 employees, excluding non-executive Directors). By geographical regions, it included 1,368 employees from China and 1 employee from Hong Kong, China (2021: all the employees were from China). The following table illustrates the employee structure categorised by gender, age and position:

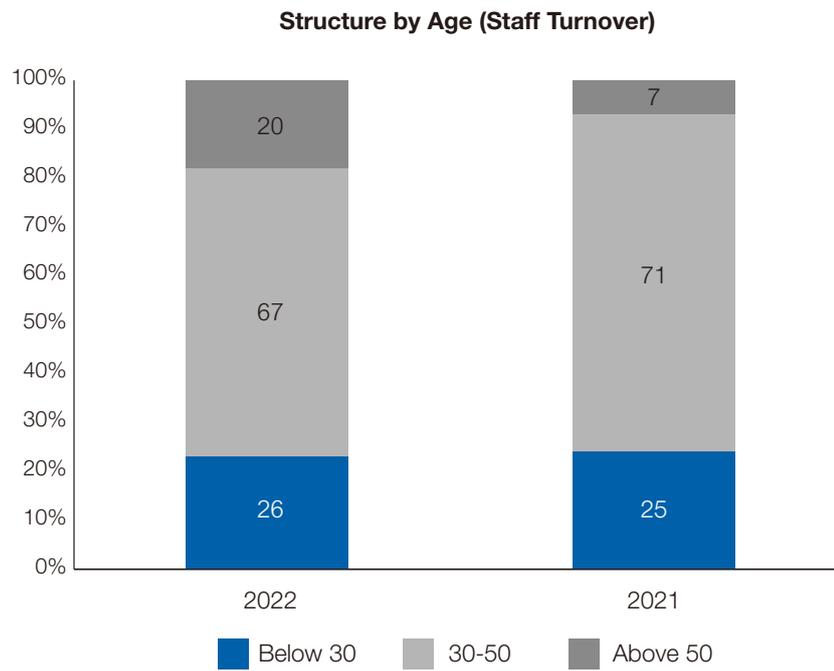
Category	2022	2021
Number of current employees and percentage by gender:		
Male	928 (68%)	930 (68%)
Female	441 (32%)	434 (32%)
Number of current employees and percentage by age:		
Below 30	151 (11%)	137 (10%)
30 to 50	1,024 (75%)	1,015 (74%)
Above 50	194 (14%)	212 (16%)
Number of current employees and percentage by position:		
Senior management	21 (1.53%)	NA
Middle management	45 (3.29%)	NA
Other employees	1,303 (95.18%)	NA

Employee Turnover

As of 31 December 2022, the Company recorded a total of 113 (2021: 103) employees who had left, registering a turnover rate ^(Note 1) of approximately 8%, basically on par with the turnover rate of 2021. These employees are categorised by gender and age as shown in the following table:

Structure by Gender (Staff Turnover)

Environmental, Social and Governance Report (Continued)



	2022	2021
Turnover rate of employees by gender ^(Note 2)		
Male	4%	8%
Female	18%	7%
Turnover rate of employees by age groups ^(Note 2)		
Below 30	18%	17%
30-50	7%	7%
Above 50	10%	3%

Note 1: Calculated as the number of employee departures divided by the average number of employees during the year.

Note 2: Calculated as the number of employee departures in this category divided by the average number of employees in this category during the year.

The Company did not incur any material non-compliance in relation to labour practices during the Reporting Period (2021: nil).

Environmental, Social and Governance Report (Continued)

B2: Health and Safety

Consistently committed to the principle of regarding production safety as the first priority, the Company has established a production safety committee for comprehensive supervision and management of safety, hygiene and health activities in the production process of the Company. It strives to protect staff from work injuries or occupational hazards, and strictly follows the regulations of occupational health and safety, such as the Production Safety Law of the PRC (《中華人民共和國安全生產法》), the Labour Law of the PRC (《中華人民共和國勞動法》), the Fire Control Law of the PRC (《中華人民共和國消防法》), the Law on Prevention of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》), the Measures for the Supervision and Administration of Occupational Health Surveillance (《職業健康監護管理辦法》), the Decision of the State Council on Further Strengthening Production Safety (《國務院關於進一步加強安全生產工作的決定》), the Production Safety Regulations of Hebei Province (《河北省安全生產條例》) and the Standard on Work Safety Standardisation of Machinery Manufacturing Enterprises (《機械製造企業安全生產標準化規範》) so that the employees can work in a safe and healthy work environment.

In compliance with the Production Safety Law of the PRC (《中華人民共和國安全生產法》) and in view of the actual needs of the Group to enhance production safety, in order to implement the policy of “Safety First, Risk Prevention and Integrated Management” and ensure the personal safety of employees, the Company has formulated its internal regulations such as “Compilation of Safety Regulations” (《安全規章制度彙編》) and the “Control Procedures Process Operation Environment” (《過程運行環境控制程序》). Such regulations clarified the safety production responsibilities of personnel and functional departments at all levels; standardised the rights and obligations of all departments and employees of the Company; imposed environmental control over occupational health and safety in production and management processes; organised safety education publicity activities and safety production publicity meetings regularly, and stipulated that new employees must receive safety education and pass an examination before they obtain a permit to work; strictly implemented various operational processes and standard guidelines under occupational health regulations, and strengthened the publicity of occupational disease prevention; and adopted measures such as advanced technology and equipment, better management and integrated utilisation to prevent occupational disease hazards from the source. The Company has obtained the “Occupational Health and Safety Management Systems Certificate” (《職業健康安全管理体系認證證書》) in line with the ISO45001:2018 standard.

During the Reporting Period, the Company continued to maintain the operation of its occupational health and safety system. For instance, the Company arranged annual physical check-ups for employees and established the Occupational Health Archives (《職業衛生檔案》) to record the details of each employee including name, gender, age, birthplace, and the results of previous occupational health inspections and the processing situation. The Company works to ensure the effective provision and use of occupational disease protection facilities and that the concentration or intensity of occupational hazards in workplace meets national occupational health standards, reduce the risk of occupational hazardous accidents and protect workers' physical health. The Company undergoes pre-employment and pre-resignation physical examinations for new employees and departing employees, respectively, and the Safety and Environmental Protection Office regularly provides occupational health inspections for the Company at the same time.

Environmental, Social and Governance Report (Continued)

The Company organises different types of safety training every month, including the provisions of the Production Safety Law of the PRC and the environment and occupational health of each position, and sets safety examinations in addition to the training to strengthen and consolidate the concept of production safety for employees at all levels, and introduced safety tips in routine broadcast. Moreover, members of safety inspection staff are entitled to check, penalise and rectify immediately for potential safety risks such as irregular operations and improper wearing of labour protection gears by employees during daily safety inspection.

The Company's measures for health and safety in the workplace are as follows:

1. Personal protective equipment such as protective clothing and protective masks must be used to enhance protection when working in workplaces where risk is imposed to human health;
2. Regular hazard identification is conducted at the workplace, including organising routine and non-routine activities, the activities of all personnel entering the workplace and all the facilities within the workplace;
3. In the case of changes in environmental laws and regulations, environmental impact assessment shall be conducted in a timely manner to update environmental factors;
4. The production and operation units adopt measures to eliminate or reduce the hazards of noise sources to workers, such as silencing, controlling the spread of noise and reasonable planning of plants.;
5. Regular evaluation of compliance with the Production Safety Law of the PRC.

The Company had no work-related injuries or deaths during the Reporting Period and the past three years, nor any material non-compliance cases in relation to health and safety laws and regulations.

B3: Development and Training

The Company believes that employees are the most valuable assets of the Company. For the purpose of improving staff performance, quality work capabilities and understanding of corporate culture, as well as systematically enriching their knowledge and skills to develop their potential capabilities and establish good relationships, we have formulated the Training Management System (《培訓管理制度》) to provide relevant training for employees in different functions. Pursuant to this system, training content is designed and arranged based on corporate regulations and systems, staff duties and operating skills. The system also sets out various training plans, implementation, supervision, appraisal as well as improvement suggestions.

During the reporting year, the Company established the Board Independence Evaluation Mechanism (《董事會獨立性評估機制》). During the evaluation process on the independence of the Board, it also clarifies the necessary actions to be taken by the Company, in order to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Environmental, Social and Governance Report (Continued)

Staff Training

In 2022, the training courses organised by the Company covered various aspects such as occupational health and safety, communication and negotiation skills, product quality, technology and skills, production safety and the implementation rules for product certification. A total of about 92% ^(Note 1) of employees received the training, with each employee receiving an average of approximately 3.31 training hours ^(Note 2). In addition, during the reporting year, anti-corruption trainings for Directors and employees were arranged in forms of offline courses and videos, reiterating the zero tolerance attitude of the Company for corruption, bribery and other illegal activity and enhancing anti-corruption awareness among staff. During the reporting year, a total of 3,382 hours of regular trainings were organised, with employee participants totaling 1,597; and a total of 1,155 hours of anti-corruption trainings were organised, with employee participants totaling 1,155. Below sets out the trainings by gender and position of employees:

	2022			
	Number of trained employees	Percentage of trained employees ^(note 3)	Total number of training hours (hour)	Average training hours completed per employee (hour) ^(note 4)
By employee gender				
– Male	858	69%	2,918	3.14
– Female	392	31%	1,619	3.67
By employee position				
– Senior management	12	1%	15	0.71
– Middle management	32	3%	81	1.80
– Other employees	1,206	96%	4,441	3.41
	2021			
	Number of trained employees	Percentage of trained employees ^(note 3)	Total number of training hours (hour)	Average training hours completed per employee (hour) ^(note 4)
By employee gender				
– Male	877	69%	5,892	6.39
– Female	401	31%	2,509	6.02
By employee position				
– Senior management	12	1%	36	1.89
– Middle management	27	2%	148	3.25
– Other employees	1,239	97%	8,217	6.44

Environmental, Social and Governance Report (Continued)

Note 1: Calculated by dividing the total number of trained employees by the number of employees during the year.

Note 2: Calculated by dividing the total number of training hours by the number of employees during the year.

Note 3: Calculated by dividing the number of individuals trained in this employee category by the total number of trained employees.

Note 4: Calculated by dividing the number of training hours in this employee category by the number of employees in this category during the year.

B4: Labour Standard

During recruitment, the Company is responsible for providing applicants with the information of the job they recruited, including responsibilities, working conditions and location, occupational health and safety, production safety and remuneration, etc.

The Company stipulates in the Measures for the Administration of Labour Contracts (《勞動合同管理辦法》) that the human resources department is responsible for verifying the authenticity of the information (such as resumes, ID cards and certificates) provided by job applicants. The applicants shall present their valid ID cards when signing labour contracts, which, together with other related employment documents shall be signed on site and shall not be signed on behalf of the job applicant, to avoid the employment of illegal labour or child labour or signing a labour contract with the party in violation of his/her real intention.

The Company has made reasonable arrangement on staff's working time in accordance with the statutory standard working time range, provides leave benefits such as paid leave and sick leave according to the Labour Law. Overtime management is set out in the Rules of Staff Attendance and Management (《職工考勤管理細則》). For employees who effectively work overtime, the Company will arrange for employees to make up for rest or pay overtime in accordance with law. The Company prohibits forced labour in all forms.

The Company strictly abides by the Labour Law of the PRC and Labour Contract Law and related laws and regulations. During the Reporting Period, the Company did not have any material non-compliance cases in relation to labour standards as stipulated in relevant laws and regulations (2021: nil).

Environmental, Social and Governance Report (Continued)

VII. OUR BUSINESS

The Group is a leading rail fastening system provider of China. Its major business focuses on the R&D, manufacturing, sales and technical support of rail fastening system products, and provision of fastening system products to rail transit customers in all fields such as high-speed railways, normal-speed railways, heavy-haul railways and urban rail transit. In addition to rail fastening system, the Company is also engaged in the R&D, manufacturing and sales of welding wire products, as well as the R&D, manufacturing and sales of railway sleeper products through its subsidiary Xingtai Juneng. During the Reporting Period, 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.

Supply chain management and product responsibility are especially important to the success of our business. Our work in these areas is detailed in the following paragraphs.

B5: Supply Chain Management

In order to strengthen the management of suppliers and ensure that the supplies procured comply with requirements, the Company has formulated the Procurement Control Procedures (《採購控制程序》) so that suppliers with great potential can enter the Company's supply system to provide quality assurance for the Company's products. Before selecting a new supplier, we conduct on-site inspections and collect valid business and quality certificates such as the Legal Person Business License, Tax Registration Permit, Quality Inspection Report, Certification in Quality Management System and market reputation; we also test the products of product suppliers, who can only become the suppliers of the Company and be listed in its Qualified Supplier Catalogue (《合格供方名錄》) after passing the test samples.

The Company purchases raw materials mainly from qualified domestic suppliers. For the same type of raw materials, the Company usually establishes partnerships with multiple suppliers to reduce any potential risks in relation to supply disruption and dependence on a single supplier and thereby maintain the stability of the Company's raw material procurement. In addition, the Company not only ensures the timely supply of corresponding raw materials in the above ways, but also strictly controls the quality standard of raw materials through random sampling inspection of incoming raw materials and irregular field visits to the production and operation sites of raw material suppliers.

In selecting suppliers, we evaluate their quality, costs, delivery and services. For the suppliers of material resources, the Company has established strategic cooperation relationship with qualified long-term suppliers to ensure the quality of procurement. As for suppliers that have collaborated with us all along, we will also conduct periodic evaluation, using the Supplier Cycle Assessment Form (《供方週期評估表》) to evaluate suppliers once a year, and issue a Treatment List for Corrective and Preventive Measures (《糾正和預防措施處理單》) to suppliers who have scored up to standard but failed to meet the highest requirements. They have to rectify within the time limit; otherwise, their supplier qualification will be cancelled, and unqualified suppliers will have their supplier qualification directly cancelled. A supplier who fails to meet qualification for two consecutive batches of the same product will be issued a Treatment List for Corrective and Preventive Measures and will be required to analyse the reason and adopt measures to rectify. Its supplier qualification will be cancelled if there is no obvious improvement in quality.

Environmental, Social and Governance Report (Continued)

During the reporting year, in response to the current scientific governance of ESG, we introduced the Provisional Measures for ESG Management of Supply Chain (《供應鏈ESG管理暫行辦法》) to ensure the overall synergy of the supply chain and the effectiveness of the overall system standards. We are committed to building a sustainable supply chain system and working with trustworthy suppliers to achieve value creation in the long run. The ESG management of suppliers affects the mutual development of both parties. The complete process, involving supplier development, selection, control and evaluation, is standardised, and we constantly optimise all aspects of the process to ensure that our suppliers meet our core values and philosophy of sustainable development. The Company also sets out its supply chain ESG management monitoring process from the following two aspects:

1. Suppliers must ensure that the products provided are in compliance with contractual and environmental requirements and that their transportation would not cause pollution to the environment; provide quality assurance policies, testing reports on harmful elements, etc.
2. The production of the supplier's products, throughout the whole life cycle from design, materials, packaging, emissions, waste disposal, must comply with national environmental protection and safety laws and regulations.

Suppliers that were active and had transactions with the Company during the Reporting Period totalled 452, with categories mainly involving raw materials, packaging, fixed assets and molds. Among them, strategic cooperation partners provided the primary raw materials. The Company generally adopts the principle of proximity when selecting suppliers for procurement. Nonetheless, considering the quality, price and other factors such as logistics requirement of the main raw materials including steel and packaging materials, the Company's current active suppliers are located in different provinces in China

B6: Products Responsibility

The Company highly values product safety and reliability, and strictly complies with relevant national, international and industrial standards. In terms of rail fastening system products, the Company controls product quality strictly in line with 18 technical standards of the railway industry such as the Technical Standard Catalogue of the Railway Industry (《鐵道行業技術標準目錄》) and the High-speed Rail Fastening (《高速鐵路扣件》) issued by the National Railway Administration. In terms of railway sleeper products, the Company implements industry quality standards, which mainly include New Type-III Concrete Bridge Sleepers and Guard Rail Fastening Q/CR535-2016 (《新III型混凝土橋枕及護軌扣件Q/CR535-2016》), Concrete Turnout Sleepers for Ballasted Track TB/T3080-2014 (《有砟軌道混凝土岔枕TB/T3080-2014》) and Concrete Sleepers TB/T2190-2013 (《混凝土枕TB/T2190-2013》). In terms of welding wire products, the Company implements national quality standards, mainly including Stainless Steel Flux Cored Wire GB/T17853-2018 (《不銹鋼藥芯焊絲GB/T17853-2018》) and Non-alloy Steel and Fine Grain Steel Flux Cored Wire GB/T10045-2018 (《非合金鋼及細晶粒鋼藥芯焊絲GB/T10045-2018》). The Company has passed special certifications such as ISO9001 Quality Management Systems Certification and CRCC for railway products.

Environmental, Social and Governance Report (Continued)

Quality Control

According to the above requirements, the Company has prepared management system manuals, procedure documents and technical documents for the operation of its quality control system, with regular internal audit and management review on the operation of the management system every year. The Company also receives annual supervision, review and re-evaluation of such system operation by external professional audit institutions, as well as irregular review on the Company's quality management system by customers, based on which the internal quality management system undergoes constant enhancement. The Company monitors the entire production process, with clear identifications and process records from ingredients to finished products for robust traceability. In addition, the Company's quality management department equipped with professional personnel is responsible for inspecting product quality and protecting the quality management system of the Company's products to ensure that the products would meet the generally accepted quality requirements to be safe, reliable, usable and possible to repair.

The Company has formulated the Administrative Measures for Return and Replacement (《退換貨管理辦法》) to standardise the management of customer feedback handling and product return, reduce losses, increase customer satisfaction, clarify the responsibility of returned products and timely address the issues of returned products. The Measures provide clear delineation of the responsibilities of each department, set out processing procedures in detail, and establish product return and replacement processing mechanism to satisfy customer's demands on return and replacement, with the specific procedure including acceptance on deviation, repair, replacement or return of goods. At the same time, the relevant department shall analyse the reasons and adopt corresponding rectification or precautionary measures.

Customers can have their products returned or replaced according to the following procedure: first, the customer initiates an application for product return. Upon receiving the application, the market development department will relay it to quality control and technology departments for analysis and processing to determine a positive processing plan. The feedback will be provided for the market development department to communicate with customers and coordinate various departments for joint processing, so as to ensure that the customers' demand is satisfied and timely handled.

During the Reporting Period, the Company did not sell or deliver products that needed to be recalled for safety and health reasons, or received any complaints about product quality or other issues (2021: nil).

Environmental, Social and Governance Report (Continued)

Complaint Handling

The Company addresses customer complaints in the concept of “Prevention First”. In the event of a customer complaint, the market development department shall timely inform relevant departments. The quality management department shall organise relevant departments such as technology and production departments to analyse and review the customer complaint. If it involves product quality, the departments shall identify and isolate products of the same type and same batch under the customer complaint within one working day. For existing inventory and returned products, the warehouse shall identify, isolate and record such products; for customer inventory, the market development department shall inform the customer of identification and isolation; the quality management department shall, according to the situation, call on technology, market and production departments to verify and review the isolated products, make decisions on scrapping, rework, return/replacement, application on concession and conversion of use, and notify the corresponding departments. The application on concession must be approved by the customer.

Intellectual Property Rights

We comply with the requirements of relevant laws and regulations such as the Copyright Law of the PRC (《中華人民共和國著作權法》), the Trademark Law of the PRC (《中華人民共和國商標法》), and the Patent Law of the PRC (《中華人民共和國專利法》). The Company places strong emphasis on upgrading its production process and developing new products and continuously organises and carries out process improvement and performance upgrade. The Company also applies products to domestic railway construction, pays attention to intellectual property protection, and organises employees to actively participate in various technological innovation activities of the Company. New materials, products, technologies, processes, formulas and designs involved in our R&D activities are patented and incorporated into the Company’s intellectual property protection. The Company will give spiritual and material rewards for innovation achievements and patents based on different situations, and protect the rights of authorship. To regulate the matters on intellectual property rights, the Group has prepared the Administrative Regulations on Right of Enterprise Name, Intellectual Property Right and Sales Right (《企業名稱權、知識產權及銷售權管理規定》). The product trademarks of the Group (including its limited subsidiaries) are registered and protected by law. As of the end of 2022, the Company had 56 active patents and 7 patents under application.

Protecting Customer Privacy

We attach great importance to information security and provide strict privacy protection to users through a stringent security management system and advanced hardware and software technology. The Group strictly complies with the laws and regulations on information security such as the Law of the People’s Republic of China on Guarding State Secrets (《中華人民共和國保密法》) and the Measures for the Implementation of the Law of the People’s Republic of China on Guarding State Secrets (《中華人民共和國保密法實施辦法》), manages the collection, use and storage of various types of data, regulates information security management, ensures the availability, integrity and confidentiality of information, and fully protects customer privacy.

Environmental, Social and Governance Report (Continued)

B7: Anti-corruption

The Company has complied with regulations regarding anti-corruption and anti-money laundering, including but not limited to the Criminal Law of the PRC (《中華人民共和國刑法》), the Anti-unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) and the Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》).

According to the Anti-unfair Competition Law (《反不正當競爭法》), the Company has formulated various internal regulations including the Anti-commercial Bribery Management Regulations (《反商業賄賂管理規定》) and the Anti-fraud Management Regulations (《反舞弊管理規定》) regarding anti-corruption and anti-fraud behaviour. The Company also adheres to the principles of voluntariness, equality, fairness and integrity, as well as publicly recognised business ethics. The regulations clarify various codes of business conduct for personnel at each level of the Company.

The Company's Internal Audit Department is the key establishment of anti-corruption work. Their reporting hotline and mail address are open and available to public, and are used to receive and investigate the reported misconduct and illegal activities, such as reporting suspicious crime of corruption, cheating and fraud. The Internal Audit Department will carry out the audit work according to the content of the report by the whistleblower, and submit the audit results to the audit committee and relevant management. In case of involving offence of the national law, the case shall be referred to a judicial authority in accordance with laws.

During the reporting year, the Company established a Whistleblowing Policy (《舉報政策》) to facilitate employees of the Company and those who deal with the Company to raise concerns, in confidence and anonymity, with the audit committee of the Company about possible improprieties in any matter related to the Company, so as to help detect and prevent improper or fraud or immoral behavior in the Company. The regulation gives a detailed guidance to whistleblowing procedure. There are channels available for employees of the Company and external parties who deal with the Company to submit reporting information to the Company, and the Company will try every effort to ensure reports are handled in a highly confidential and fair manner. Where the report discloses a possible criminal offence, the Company, after consulting its legal advisers, would decide if the matter should be referred to the relevant authorities for further action as appropriate. Once the matter is referred to the authorities, the Company will not be able to take further action on the matter, including advising the employee/external party of the referral.

In addition, the Company also arranged anti-corruption and anti-bribery compliance trainings for all of its staff and Directors during the reporting year.

During the Reporting Period, there was no legal proceedings regarding corruption that were raised and closed against the Group or its employees (2021: nil).

Environmental, Social and Governance Report (Continued)

VIII. OUR COMMUNITIES

B8: Community Investment

The Company actively participated in community charity, despite certain restrictions in implementation due to resurgence of the COVID-19 pandemic. The Company was involved in the following community contribution and public welfare activities during the Reporting Period:

1. In January 2022, the Company paid a visit to poverty-stricken households in Guozhuang Village and sent rice, millet, flour, oil and other gifts to 10 impoverished families, sharing our care and warmth with them.
2. In August 2022, the Company donated RMB150,000 to Shijiazhuang Charity Federation for the charity project of “Supporting Education to Realize Dreams (圓夢助學)”;
3. In July 2022, the Company organised its staff to participate in a garbage clean-up charity activity under the theme of “Hutuo River Protection, Yichen Takes Action (保護滹沱河·翼辰在行動)”. The ecological idea of “lucid waters and lush mountains are invaluable assets” was practiced through action, which made positive contribution to a clean environment along the Hutuo River.

In conclusion, the Company initiated a series of work on environmental protection and community care during the year. We will enhance our investment in environmental protection and continue to fulfil our corporate responsibilities on environmental protection and society.

AUDITORS' REPORT

Tian Jian Shen No. 3-179 [2023]

TO THE SHAREHOLDERS OF HEBEI YICHEN INDUSTRIAL GROUP CORPORATION LIMITED

1. OPINION

We have audited the financial statements of Hebei Yichen Industrial Group Corporation Limited (hereinafter "Yichen Industrial Corporation"), which comprise the consolidated and parent company balance sheet as at 31 December 2022, the consolidated and parent company income statements, the consolidated and parent company statements of cash flows, the consolidated and parent company statements of changes in owners' equity for the year of 2022, and relevant notes to the financial statements.

In our opinion, the attached financial statements present fairly, in all material aspects, the consolidated and parent company's financial position of Yichen Industrial Corporation as at 31 December 2022 and the consolidated and parent company's operational performance and cash flows for the year of 2022 in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with Chinese Auditing Standards for Certified Public Accountants. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditors' report. We are independent of Yichen Industrial Corporation and have fulfilled our other ethical responsibilities in accordance with the Code of Ethics for Chinese Certified Public Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Auditors' Report (Continued)

3. KEY AUDIT MATTERS

Key audit matters are the matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(1) Revenue recognition

1. *Description of the matter*

For relevant information disclosure, see Notes 3(XXI) and 5(II)1 to the financial statements.

Yichen Industrial Corporation generated its revenue mainly from the sales of products such as rail fastening system, welding wire and railway sleepers. In 2022, Yichen Industrial Corporation's revenue amounted to RMB1,258,266,197.95.

Since revenue is one of the key performance indicators of Yichen Industrial Corporation, there may be inherent risks that the management of Yichen Industrial Corporation (the "Management") may use inappropriate revenue recognition to achieve specific goals or expectations. Therefore, we have identified revenue recognition as a key audit matter.

Auditors' Report (Continued)

3. KEY AUDIT MATTERS (Continued)**(1) Revenue recognition** (Continued)2. *Audit response*

With regard to revenue recognition, our audit procedures mainly include:

- (1) Obtain an understanding of key internal control relevant to revenue recognition, assess the design of such control to confirm whether it is implemented, and test the operation effectiveness of relevant internal control;
- (2) Examine the main sales contract, understand major contract terms or conditions, and evaluate whether the revenue recognition methods are appropriate;
- (3) Implement analysis procedures for revenue and gross profit margin by month, products, customer and etc., identify whether there are significant or abnormal fluctuations, and look into the causes of fluctuations;
- (4) For revenue from domestic sales, check supportive documents related to revenue recognition on a sampling basis, including sales contracts, orders, sales invoices, delivery orders, and customer receipts, etc.; for export revenue, obtain electron port information and verify it with book records, check the supportive documents on a sampling basis, such as sales contracts, export declarations, freight bills of lading and sales invoices;
- (5) Confirm the sales for the current period with major customers on a sampling basis, taking into account the confirmation letter of accounts receivable;
- (6) Run a cut-off test on the revenue recognised before and after the balance sheet date, and evaluate whether the revenue was recognised during an appropriate period;
- (7) Obtain sales return records after the balance sheet date and inspect whether there exist cases that the revenue recognition conditions were not satisfied on the balance sheet date;
- (8) Check if information related to revenue were appropriately presented in financial statements.

Auditors' Report (Continued)

3. KEY AUDIT MATTERS (Continued)

(2) Impairment of accounts receivable

1. *Description of the matter*

For relevant information disclosure, see Notes 3(I)X and 5(I)4 to the financial statements.

As of 31 December 2022, the book balance of accounts receivable of Yichen Industrial Corporation was RMB1,502,835,253.81, the provision for bad debts was RMB194,175,871.37 and its book value was RMB1,308,659,382.44.

Based on the credit risk characteristics of each accounts receivable, the Management measures its loss provision at an amount equivalent to the lifetime expected credit loss on either an individual basis or a collective basis of accounts receivable.

Since the amount of accounts receivable is significant, and impairment test of accounts receivable involves significant management judgment, we determine the impairment of accounts receivable as a key audit matter.

Auditors' Report (Continued)

3. KEY AUDIT MATTERS (Continued)**(2) Impairment of accounts receivable** (Continued)2. *Audit response*

With regard to impairment of accounts receivable, our audit procedures mainly include:

- (1) Obtain an understanding of key internal control relevant to impairment of accounts receivable, assess the design of such control to confirm whether it is implemented, and test the operation effectiveness of relevant internal control;
- (2) Review the subsequent actual write-off or reversal of accounts receivable that were provided for bad debts in previous years and evaluate the accuracy of historical expectations made by the Management;
- (3) Review the relevant consideration and objective evidences of credit risk assessment on accounts receivable and evaluate whether the Management has appropriately identified the credit risk characteristics of each account receivable;
- (4) For accounts receivable with the expected credit loss measured on an individual basis, obtain and inspect the Management's forecast on the expected collection of cash flow, evaluate the reasonableness of key assumptions used in the forecast and the accuracy of data, and verify them with external evidences obtained;
- (5) For accounts receivable with the expected credit loss measured on a collective basis, evaluate the reasonableness of identifying groups by the Management based on credit risk characteristics; evaluate the reasonableness of the aging of accounts receivable determined by the Management based on historical credit loss experience and forward-looking estimates and the comparison table of expected credit loss rate; test the accuracy and completeness of the data (including accounts receivable aging, historical loss rate and migration ratio) used by the Management and whether the calculation of the provision for bad debts is correct;
- (6) For accounts receivable that past the credit period, obtain an understanding from the Management of the reasons for being overdue, examine information such as the collection records with major customers, analyse overdue days of accounts receivable and evaluate the reasonableness of management's provision for bad debts on accounts receivable;
- (7) Evaluate the reasonableness of the Management's provision for bad debts on accounts receivable, taking into account the confirmation letter and the subsequent recovery of accounts receivable;
- (8) Check if information related to the impairment of accounts receivable was appropriately presented in financial statements.



Auditors' Report *(Continued)*

3. KEY AUDIT MATTERS *(Continued)*

(3) Impairment of goodwill

1. *Description of the matter*

For relevant information disclosure, see Notes 3(XVII) and 5(I)17 to the financial statements.

As of 31 December 2022, Yichen Industrial Corporation's original book value of goodwill was RMB114,280,454.01, impairment provision was RMB35,207,801.11 and book value was RMB79,072,652.90.

When impairment test is performed by the Management on goodwill together with its relevant asset group or asset group combination, the recoverable amount of the relevant asset group or asset group combination will be calculated and determined according to the present value of the expected future cash flows. Key assumptions used in the impairment test include: detailed forecast period revenue growth rate, perpetual forecast period growth rate, gross profit margin, discount rate, etc.

Due to the significant amount of goodwill and the fact that impairment test on goodwill involves significant judgments of the Management, we determine the impairment of goodwill as a key audit matter.

Auditors' Report (Continued)

3. KEY AUDIT MATTERS (Continued)**(3) Impairment of goodwill** (Continued)2. *Audit response*

With regard to the impairment of goodwill, our audit procedures mainly include:

- (1) Obtain an understanding of the key internal control related to the impairment of goodwill, assess the design of such control to confirm whether it is implemented;
- (2) Review the forecast of the present value of future cash flows by the Management in previous years and the actual operating results, and evaluate the accuracy of historical expectations made by the Management;
- (3) Understand and assess the competence, professionalism and objectivity of the external valuer hired by the Management;
- (4) Assess the reasonableness and consistency of methods used by the Management in the impairment test;
- (5) Understand the key assumptions used in the identification of the asset group that goodwill belongs to and the goodwill impairment test, and discuss with the Management and the external valuer to assess the reasonableness of the key assumptions, and review whether the relevant assumptions are consistent with the overall economic environment, industry conditions, operating conditions, historical experience, operating plans, and other assumptions related to the financial statements used by the Management;
- (6) Test the accuracy, completeness and relevance of data used by the Management in the impairment test, and review the internal consistency of the relevant information in the impairment test;
- (7) Test if the Management's calculation of the present value of expected future cash flows is accurate;
- (8) Check whether the information on goodwill impairment has been properly presented in financial statements.

Auditors' Report (Continued)

4. OTHER INFORMATION

The Management is responsible for other information. Other information comprises all the information included in the annual report other than the financial statements and our auditor's report.

Our opinion expressed on the financial statements does not cover other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read other information and, in doing so, consider whether other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of other information, we are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Management are responsible for the preparation of the financial statements that give a true and fair view in accordance with Accounting Standards for Business Enterprises, and to enable such internal control to be fairly reflected, designed, exercised and maintained as the Management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing Yichen Industrial Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it intends to liquidate, or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of Yichen Industrial Corporation (hereinafter "Those Charged with Governance") are responsible for overseeing Yichen Industrial Corporation's financial reporting process.

Auditors' Report (Continued)

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of auditing works in accordance with the Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- (4) conclude on the appropriateness of the Management's use of the going concern assumptions and, based on the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on Yichen Industrial Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required by the Standards on Auditing to draw the attention of users in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Yichen Industrial Corporation to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Yichen Industrial Corporation to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of group audit and remain solely responsible for our audit opinion.



Auditors' Report *(Continued)*

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS *(Continued)*

We communicate with Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Those Charged with Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Pan-China Certified Public Accountants LLP

Chinese Certified Public Accountant:
(Partner-in-charge of project)
Jin Shunxing

Hangzhou, the PRC

Chinese Certified Public Accountant:
Ouyang Caihua

19 April 2023

CONSOLIDATED BALANCE SHEET

31 December 2022

Unit: RMB

Assets	Notes	Closing balance	Closing balance of last year
Current assets:			
Monetary capital	1	159,935,359.15	157,303,294.87
Provision for settlement			
Lendings to banks and other financial institutions			
Financial assets held for trading	2	207,524,486.40	106,878,797.76
Derivative financial asset			
Notes receivable	3	67,339,011.33	68,753,919.35
Accounts receivable	4	1,308,659,382.44	1,026,502,699.74
Financing of receivables	5	2,716,759.60	6,361,000.00
Prepayments	6	38,044,613.01	31,293,137.07
Insurance premiums receivable			
Cession premiums receivable			
Deposits receivable from reinsurance contract			
Other receivables	7	12,465,883.25	8,104,367.13
Recoursable financial assets acquired			
Inventories	8	354,920,513.03	449,962,782.35
Contract assets	9	28,082,566.29	59,358,802.70
Assets held for sale			
Non-current assets due within one year			
Other current assets	10	6,433,202.39	11,067,602.25
Total current assets		2,186,121,776.89	1,925,586,403.22

Consolidated Balance Sheet (Continued)

31 December 2022

Assets	Notes	Closing balance	Closing balance of last year
Non-current assets:			
Loans and advances granted			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	11	241,896,914.68	206,271,660.90
Other equity instruments investment	12	8,197,392.29	8,320,900.00
Other non-current financial assets			
Investment properties			
Fixed assets	13	645,347,726.38	480,675,600.96
Construction in progress	14	199,706,523.63	251,980,044.45
Bearer biological assets			
Oil and gas assets			
Right-of-use assets	15	599,448.94	1,198,897.88
Intangible assets	16	141,372,721.27	144,551,591.73
Development expenditures			
Goodwill	17	79,072,652.90	102,739,493.25
Long-term deferred expenses			
Deferred income tax assets	18	11,428,056.24	24,539,527.35
Other non-current assets	19	81,684,665.23	76,117,207.03
Total non-current assets		1,409,306,101.56	1,296,394,923.55
Total assets		3,595,427,878.45	3,221,981,326.77

Consolidated Balance Sheet (Continued)

31 December 2022

Liabilities and owner's equity (or shareholders' equity)	Notes	Closing balance	Closing balance of last year
Current liabilities:			
Short-term borrowings	20	182,639,573.25	58,714,200.00
Borrowings from central bank			
Borrowed funds			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	21	73,801,170.00	86,937,787.00
Accounts payable	22	374,433,795.85	378,801,050.65
Advance receipts			
Contract liabilities	23	8,164,349.97	7,664,801.58
Financial assets sold for repurchase			
Customer deposits and interbank deposits			
Funds received from securities trading agency services			
Funds received from securities underwriting business			
Payroll payable	24	6,178,583.11	8,809,790.37
Tax payable	25	11,991,332.01	18,343,299.75
Other payables	26	38,379,396.29	48,925,480.25
Handling charges and commissions payable			
Cession premiums payable			
Liabilities held for sale			
Non-current liabilities due within one year	27	218,127,472.25	25,271,053.87
Other current liabilities	28	5,468,153.98	2,166,567.92
Total current liabilities		919,183,826.71	635,634,031.39

Consolidated Balance Sheet (Continued)

31 December 2022

Liabilities and owner's equity (or shareholders' equity)	Notes	Closing balance	Closing balance of last year
Non-current liabilities:			
Provision for insurance contracts			
Long-term borrowings	29	197,500,000.00	219,500,000.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities	30		627,472.24
Long-term payables			
Long-term payroll payables			
Provision for liabilities	31	451,731.44	
Deferred income	28	4,711,066.67	4,943,666.67
Deferred income tax liabilities	18	314,309.27	394,336.50
Other non-current liabilities			
Total non-current liabilities		202,977,107.38	225,465,475.41
Total liabilities		1,122,160,934.09	861,099,506.80
Owners' equity (or shareholders' equity):			
Paid-in capital (or share capital)	33	448,920,000.00	448,920,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	34	813,227,049.41	813,227,049.41
Less: Treasury stock			
Other comprehensive income	35	-123,507.71	
Special reserve			
Surplus reserve	36	151,796,998.48	137,534,737.84
Provision for general risks			
Undistributed profits	37	1,047,160,490.09	950,041,243.47
Total equity attributable to owners of the parent		2,460,981,030.27	2,349,723,030.72
Minority interests		12,285,914.09	11,158,789.25
Total owner's equity		2,473,266,944.36	2,360,881,819.97
Total liabilities and owner's equity		3,595,427,878.45	3,221,981,326.77

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

BALANCE SHEET OF PARENT COMPANY

31 December 2022

Unit: RMB

Assets	Notes	Closing balance	Closing balance of last year
Current assets:			
Monetary capital		133,028,366.43	132,673,893.50
Financial assets held for trading		207,524,486.40	106,878,797.76
Derivative financial assets			
Bills receivable		65,814,011.33	61,408,898.25
Accounts receivable	1	1,229,641,661.58	956,793,010.86
Financing of receivables		1,486,759.60	1,300,000.00
Prepayments		35,876,119.46	25,602,436.80
Other receivables	2	10,288,890.33	7,233,038.30
Inventories		349,546,173.46	447,681,536.57
Contract assets		27,289,888.67	59,101,181.39
Assets held for sale			
Non-current assets due within one year			
Other current assets		5,714,590.51	9,757,812.37
Total current assets		2,066,210,947.77	1,808,430,605.80
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	3	519,049,804.23	513,955,254.10
Other equity instruments investment		8,197,392.29	8,320,900.00
Other non-current financial assets			
Investment properties			
Fixed assets		622,228,578.73	457,601,657.14
Construction in progress		199,436,523.63	251,980,044.45
Bearer biological assets			
Oil and gas assets			
Right-of-use assets		599,448.94	1,198,897.88
Intangible assets		135,326,428.76	138,412,611.63
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets		10,662,490.10	23,773,697.78
Other non-current assets		76,734,953.57	71,810,944.17
Total non-current assets		1,572,235,620.25	1,467,054,007.15
Total assets		3,638,446,568.02	3,275,484,612.95

Balance Sheet of Parent Company (Continued)

31 December 2022

Liabilities and owner's equity	Notes	Closing balance	Closing balance of last year
Current liabilities:			
Short-term borrowings		175,000,000.00	53,714,200.00
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable		73,801,170.00	86,937,787.00
Accounts payable		405,577,812.80	387,616,081.95
Advance receipts			
Contract liabilities		6,989,317.89	5,837,096.31
Payroll payable		5,692,500.19	8,010,143.99
Tax payable		5,494,582.65	13,426,810.61
Other payables		154,215,761.67	165,507,748.19
Liabilities held for sale			
Non-current liabilities due within one year		218,127,472.25	25,271,053.87
Other current liabilities		5,315,399.81	1,871,346.16
Total current liabilities		1,050,214,017.26	748,192,268.08
Non-current liabilities:			
Long-term borrowings		188,000,000.00	219,500,000.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			627,472.24
Long-term payables			
Long-term payroll payables			
Provision for liabilities		451,731.44	
Deferred income		4,711,066.67	4,943,666.67
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		193,162,798.11	225,071,138.91
Total liabilities		1,243,376,815.37	973,263,406.99
Owners' equity (or shareholders' equity):			
Paid-in capital (or share capital)		448,920,000.00	448,920,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve		831,739,615.96	831,739,615.96
Less: Treasury stock			
Other comprehensive income		-123,507.71	
Special reserve			
Surplus reserve		151,796,998.48	137,534,737.84
Undistributed profits		962,736,645.92	884,026,852.16
Total owner's equity		2,395,069,752.65	2,302,221,205.96
Total liabilities and owner's equity		3,638,446,568.02	3,275,484,612.95

Legal representative:
Zhang HaijunPerson in charge of accounting:
Wu JinyuHead of Finance Section:
Yang Yunjuan

CONSOLIDATED INCOME STATEMENT

2022

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year
I. Total operating revenue	1	1,258,266,197.95	1,363,645,231.39
Including: Operating income	1	1,258,266,197.95	1,363,645,231.39
Interest income			
Premiums earned			
Handling charges and commissions income			
II. Total operating cost		1,128,981,461.11	1,118,945,229.38
Including: Operating cost	1	955,756,232.37	947,636,221.88
Interest expense			
Handling charges and commissions expenses			
Surrender value			
Net payments for insurance claims			
Withdrawal of insurance responsibility reserves, net			
Insurance policy dividends paid			
Reinsurance costs			
Taxes and surcharges	2	12,274,526.43	9,411,447.70
Selling expenses	3	18,693,029.09	21,259,525.23
Management expenses	4	79,716,083.80	82,105,345.93
Research and development expense	5	42,878,147.87	44,636,803.66
Finance costs	6	19,663,441.55	13,895,884.98
Including: Interest costs		21,118,456.52	15,810,610.94
Interest income		1,993,747.07	2,693,250.32
Add: Other income	7	1,582,601.89	871,805.76
Investment gains (“-” for losses)	8	41,009,028.64	34,070,783.92
Including: Gains on investments in associates and joint ventures		32,661,927.08	31,957,141.08
Gains on derecognition of financial assets measured at amortized cost			
Foreign exchange gains (“-” for losses)			
Net income on exposure hedging (“-” for losses)			
Gain from changes in fair value (“-” for losses)	9	95,898,773.54	21,766,120.58
Loss on credit impairment (“-” for losses)	10	-45,865,582.10	-3,845,248.17
Impairment loss of assets (“-” for losses)	11	-37,581,112.19	-10,104,796.39
Gains on disposal of assets (“-” for losses)			22,113.50

Consolidated Income Statement (Continued)

2022

Items	Notes	Amounts for the period	Amounts for the same period of prior year
III. Operating profits (“-” for losses)		184,328,446.62	287,480,781.21
Add: Non-operating incomes	12	27,767.93	89,688.41
Less: Non-operating expenses	13	881,483.49	3,089,380.58
IV. Total profit (“-” for total losses)		183,474,731.06	284,481,089.04
Less: Income tax expenses	14	21,315,546.96	36,005,314.71
V. Net profit (“-” for net losses)		162,159,184.10	248,475,774.33
(I) Classified according to continuity:			
1. Net profit from continuing operations (“-” for net losses)		162,159,184.10	248,475,774.33
2. Net profit from discontinued operations (“-” for net losses)			
(II) Classified according to equity holdings:			
1. Net profit attributable to owners of the parent (“-” for net losses)		161,032,059.26	246,087,593.23
2. Profit and loss of minority interests (“-” for net losses)		1,127,124.84	2,388,181.10
VI. Other comprehensive income after tax, net		-123,507.71	
Other comprehensive income after tax attributable to owners of the parent, net		-123,507.71	
(I) Other comprehensive income that cannot be reclassified to profit or loss		-123,507.71	
1. Remeasurement of changes in defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment		-123,507.71	
4. Changes in fair value of the Company's own credit risks			
5. Others			

Consolidated Income Statement (Continued)
2022

Items	Notes	Amounts for the period	Amounts for the same period of prior year
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income that can be transferred to profits and losses under the equity method			
2. Changes in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Provisions for credit impairment of other debt investments			
5. Cash flow hedge reserve			
6. Differences on translation of foreign currency financial statements			
7. Others			
Other comprehensive income after tax attributable to minority interests, net			
VII. Total comprehensive income		162,035,676.39	248,475,774.33
Total comprehensive income attributable to owners of the parent		160,908,551.55	246,087,593.23
Total comprehensive income attributable to minority interests		1,127,124.84	2,388,181.10
VIII. Earnings per share:			
(I) Basic earnings per share		0.18	0.27
(II) Diluted earnings per share		0.18	0.27

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

INCOME STATEMENT OF PARENT COMPANY

2022

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year
I. Operating revenue	1	1,191,626,802.61	1,268,492,498.17
Less: Operating cost	1	924,957,843.99	895,835,660.83
Taxes and surcharges		11,350,981.56	8,197,803.38
Selling expenses		16,948,544.47	19,175,696.08
Management expenses		76,559,727.58	79,008,532.20
Research and development expense	2	40,119,879.52	40,673,110.65
Finance costs		19,118,506.69	13,414,322.99
Including: Interest costs		20,521,522.76	15,300,451.22
Interest income		1,904,048.85	2,630,189.54
Add: Other income		1,405,249.16	767,208.94
Investment gains (“-” for losses)	3	41,009,028.64	34,065,267.41
Including: Gains on investments in associates and joint ventures		32,661,927.08	31,957,141.08
Gains on derecognition of financial assets measured at amortized cost			
Net income on exposure hedging (“-” for losses)			
Gain from changes in fair value (“-” for losses)		95,898,773.54	21,766,120.58
Loss on credit impairment (“-” for losses)		-43,496,827.13	-1,620,392.03
Impairment loss of assets (“-” for losses)		-36,992,444.35	-9,124,147.79
Gains on disposal of assets (“-” for losses)			
II. Operating profits (“-” for losses)		160,395,098.66	258,041,429.15
Add: Non-operating incomes		21,739.61	89,688.41
Less: Non-operating expenses		847,379.50	3,081,622.28
III. Total profit (“-” for total losses)		159,569,458.77	255,049,495.28
Less: Income tax expenses		16,946,852.37	31,304,798.67
IV. Net profit (“-” for net losses)		142,622,606.40	223,744,696.61
(I) Net profit from continuing operations (“-” for net losses)		142,622,606.40	223,744,696.61
(II) Net profit from discontinued operations (“-” for net losses)			

Income Statement of Parent Company (Continued)
2022

Items	Notes	Amounts for the period	Amounts for the same period of prior year
V. Other comprehensive income after tax, net		-123,507.71	
(I) Other comprehensive income that cannot be reclassified to profit or loss		-123,507.71	
1. Remeasurement of changes in defined benefit plan			
2. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
3. Changes in fair value of other equity instruments investment		-123,507.71	
4. Changes in fair value of the Company's own credit risks			
5. Others			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Other comprehensive income that can be transferred to profits and losses under the equity method			
2. Changes in fair value of other debt investments			
3. Financial assets reclassified into other comprehensive income			
4. Provisions for credit impairment of other debt investments			
5. Cash flow hedge reserve			
6. Differences on translation of foreign currency financial statements			
7. Others			
VI. Total comprehensive income		142,499,098.69	223,744,696.61
VII. Earnings per share:			
(I) Basic earnings per share			
(II) Diluted earnings per share			

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

CONSOLIDATED STATEMENT OF CASH FLOWS

2022

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of labour service		830,313,311.90	1,048,059,176.31
Net increase in customer deposits and interbank deposits			
Net increase in loan from central bank			
Net increase in loan from other financial institutions			
Cash received from premiums of original insurance contracts			
Net cash received from reinsurance business			
Net increase in policyholder deposits and investment funds			
Cash received from interests, handling charges and commissions			
Net increase in borrowed funds			
Net increase in funds of repurchase business			
Net cash received from securities trading agency services			
Refund of taxes		5,342,782.81	1,316,088.06
Other cash received from operating-related activities	1	101,858,683.15	79,308,389.95
Sub-total of cash inflow from operating activities		937,514,777.86	1,128,683,654.32
Cash paid for goods purchased and labour service received		737,451,719.96	716,995,776.33
Net increase in loans and advances from customers			
Net increase in deposits in central bank and other financial institutions			
Cash paid for original insurance contract claims			
Net increase in lendings to banks and other financial institutions			
Cash paid for interest, handling charges and commissions			
Cash paid for policy dividend			
Cash paid to and for employees		111,707,396.50	108,380,028.87
Payments of taxes and surcharges		64,857,568.74	74,007,393.83
Other cash paid for operating-related activities	2	144,848,334.09	93,665,628.03
Sub-total of cash outflow from operating activities		1,058,865,019.29	993,048,827.06
Net cash flows from operating activities	5	-121,350,241.43	135,634,827.26

Consolidated Statement of Cash Flows (Continued)
2022

Items	Notes	Amounts for the period	Amounts for the same period of prior year
II. Cash flows from investing activities:			
Cash from disinvestments		9,948,912.07	10,509,887.13
Cash received from return of investments		5,911,554.65	10,257,197.30
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			59,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash received from investing-related activities			
Sub-total of cash inflows from investing activities		15,860,466.72	20,826,084.43
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		111,701,480.72	160,616,587.92
Cash paid for investment		5,475,567.06	12,010,702.45
Net increase in pledged loans			
Net cash paid for acquisition of subsidiaries and other business units			
Other cash paid for investing-related activities			
Sub-total of cash outflows from investing activities		117,177,047.78	172,627,290.37
Net cash flows from investing activities		-101,316,581.06	-151,801,205.94

Consolidated Statement of Cash Flows (Continued)

2022

Items	Notes	Amounts for the period	Amounts for the same period of prior year
III. Cash flows from financing activities:			
Cash received from investment			
Including: Cash received by subsidiaries from minority shareholders' investment			
Cash received from borrowings		502,639,573.25	363,714,200.00
Other cash received from financing-related activities		10,360,410.96	50,495,015.00
Sub-total of cash inflows from financing activities		512,999,984.21	414,209,215.00
Cash paid for repayment of debts		183,214,200.00	388,500,000.00
Cash paid for distribution of dividends and profits or repayment of interest		70,725,825.54	15,865,264.82
Including: Dividends and profits paid to minority shareholders by subsidiaries			
Other cash paid for financing-related activities		25,372,035.01	64,008,203.18
Sub-total of cash outflows for financing activities		279,312,060.55	468,373,468.00
Net cash flows from financing activities		233,687,923.66	-54,164,253.00
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		57,911.81	486,790.92
V. Net increase in cash and cash equivalents		11,079,012.98	-69,843,840.76
Add: Opening balance of cash and cash equivalents		65,940,847.46	135,784,688.22
VI. Closing balance of cash and cash equivalents		77,019,860.44	65,940,847.46

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

STATEMENT OF CASH FLOWS OF PARENT COMPANY

2022

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year
I. Cash flows from operating activities:			
Cash received from sales of goods or rendering of labour service		785,615,389.03	996,839,966.70
Refund of taxes		5,257,197.12	
Other cash received from operating-related activities		101,585,603.88	81,324,185.68
Sub-total of cash inflow from operating activities		892,458,190.03	1,078,164,152.38
Cash paid for goods purchased and labour service received		705,956,708.63	705,913,354.59
Cash paid to and for employees		103,462,216.80	101,044,058.10
Payments of taxes and surcharges		55,068,049.38	63,238,782.36
Other cash paid for operating-related activities		141,586,740.73	91,682,593.81
Sub-total of cash outflow from operating activities		1,006,073,715.54	961,878,788.86
Net cash flows from operating activities		-113,615,525.51	116,285,363.52
II. Cash flows from investing activities:			
Cash from disinvestments		9,948,912.07	10,000,000.00
Cash received from return of investments		5,911,554.65	10,257,197.30
Net cash received from disposal of fixed assets, intangible assets and other long-term assets			25,000.00
Net cash received from disposal of subsidiaries and other business units			
Other cash received from investing-related activities			
Sub-total of cash inflows from investing activities		15,860,466.72	20,282,197.30
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		110,163,736.75	158,362,814.09
Cash paid for investment		5,482,780.46	12,010,702.45
Net cash paid for acquisition of subsidiaries and other business units			
Other cash paid for investing-related activities			
Sub-total of cash outflows from investing activities		115,646,517.21	170,373,516.54
Net cash flows from investing activities		-99,786,050.49	-150,091,319.24

Statement of Cash Flows of Parent Company (Continued)

2022

Items	Notes	Amounts for the period	Amounts for the same period of prior year
III. Cash flows from financing activities:			
Cash received from investment			
Cash received from borrowings		485,000,000.00	358,714,200.00
Other cash received from financing-related activities		10,360,410.96	50,495,015.00
Sub-total of cash inflows from financing activities		495,360,410.96	409,209,215.00
Cash paid for repayment of debts		177,714,200.00	365,500,000.00
Cash paid for distribution of dividends and profits or repayment of interest		70,128,891.78	15,159,758.98
Other cash paid for financing-related activities		25,372,035.01	64,078,549.30
Sub-total of cash outflows for financing activities		273,215,126.79	444,738,308.28
Net cash flows from financing activities		222,145,284.17	-35,529,093.28
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		57,948.38	486,790.92
V. Net increase in cash and cash equivalents		8,801,656.55	-68,848,258.08
Add: Opening balance of cash and cash equivalents		41,311,446.09	110,159,704.17
VI. Closing balance of cash and cash equivalents		50,113,102.64	41,311,446.09

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2022

Unit: RMB

Items	Amounts for the period												
	Equity attributed to owners of parent company										Total owner's equity		
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks		Undistributed profits	Minority interests
I. Closing balance of prior year	448,920,000.00				813,227,049.41				137,534,737.84		950,041,243.47	11,158,789.25	2,360,881,819.97
Add: Changes in accounting policies													
Correction of errors in prior periods													
Combination of enterprises under common control													
Others													
II. Opening balance of current year	448,920,000.00				813,227,049.41				137,534,737.84		950,041,243.47	11,158,789.25	2,360,881,819.97
III. Increase or decrease for the period ("-" for decreases)													
(I) Total comprehensive income							-123,507.71		14,262,260.64		97,119,246.62	1,127,124.84	112,385,124.39
(II) Capital invested and decreased by owners							-123,507.71				161,032,059.26	1,127,124.84	162,035,676.39
1. Ordinary shares invested by owners													
2. Capital invested by holders of other equity instruments													
3. Amounts of share-based payments included in owners' equity													
4. Others													
(III) Profit distribution									14,262,260.64		-63,912,812.64		-49,650,552.00
1. Appropriation to surplus reserve									14,262,260.64		-14,262,260.64		
2. Withdrawal of provision for general risks													
3. Distribution to owners (or shareholders)											-49,650,552.00		-49,650,552.00
4. Others													
(IV) Internal carry-forward of owners' equities													
1. Capital reserve transferred to capital (or share capital)													
2. Surplus reserves transferred to capital (or share capital)													
3. Surplus reserves offsetting losses													
4. Changes arising from defined benefit plans carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
(V) Special reserve													
1. Amount withdrawn in current period													
2. Amount used in current period													
(VI) Others													
IV. Closing balance of current period	448,920,000.00				813,227,049.41		-123,507.71		151,796,998.48		1,047,160,490.09	12,285,914.09	2,473,266,944.36

Consolidated Statement of Changes in Owners' Equity (Continued)

2022

Items	Amounts for the same period of prior year												
	Equity attributed to owners of parent company											Total owner's equity	
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Undistributed profits		Minority interests
I. Closing balance of prior year	448,920,000.00				813,227,049.41				115,160,268.18		726,328,119.90	8,770,608.15	2,112,406,045.64
Add: Changes in accounting policies													
Correction of errors in prior periods													
Combination of enterprises under common control													
Others													
II. Opening balance of current year	448,920,000.00				813,227,049.41				115,160,268.18		726,328,119.90	8,770,608.15	2,112,406,045.64
III. Increase or decrease for the period (*- for decreases)													
(I) Total comprehensive income										22,374,469.66	223,713,123.57	2,388,181.10	248,475,774.33
(II) Capital invested and decreased by owners													
1. Ordinary shares invested by owners													
2. Capital invested by holders of other equity instruments													
3. Amounts of share-based payments included in owners' equity													
4. Others													
(III) Profit distribution										22,374,469.66	-22,374,469.66		
1. Appropriation to surplus reserve										22,374,469.66	-22,374,469.66		
2. Withdrawal of provision for general risks													
3. Distribution to owners (or shareholders)													
4. Others													
(IV) Internal carry-forward of owners' equities													
1. Capital reserve transferred to capital (or share capital)													
2. Surplus reserves transferred to capital (or share capital)													
3. Surplus reserves offsetting losses													
4. Changes arising from defined benefit plans carried forward to retained earnings													
5. Other comprehensive income carried forward to retained earnings													
6. Others													
(V) Special reserve													
1. Amount withdrawn in current period													
2. Amount used in current period													
(VI) Others													
IV. Closing balance of current period	448,920,000.00				813,227,049.41				137,534,737.84		960,041,243.47	11,158,789.25	2,360,881,819.97

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

STATEMENT OF CHANGES IN OWNERS' EQUITY OF PARENT COMPANY

2022

Unit: RMB

Items	Other equity instruments				Amounts for the period						Total owner's equity
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	448,920,000.00				831,739,615.96				137,534,737.84	884,026,852.16	2,302,221,205.96
Add: Changes in accounting policies											
Correction of errors in prior periods											
Others											
II. Opening balance of current year	448,920,000.00				831,739,615.96				137,534,737.84	884,026,852.16	2,302,221,205.96
III. Increase or decrease for the period ("-" for decreases)											
(I) Total comprehensive income							-123,507.71		14,262,260.64	78,709,793.76	92,848,546.69
(II) Capital invested and decreased by owners											
1. Ordinary shares invested by owners											
2. Capital invested by holders of other equity instruments											
3. Amounts of share-based payments included in owners' equity											
4. Others											
(III) Profit distribution									14,262,260.64	-63,912,812.64	-49,650,552.00
1. Appropriation to surplus reserve									14,262,260.64	-14,262,260.64	
2. Distribution to owners (or shareholders)										-49,650,552.00	-49,650,552.00
3. Others											
(IV) Internal carry-forward of owners' equities											
1. Capital reserve transferred to capital (or share capital)											
2. Surplus reserves transferred to capital (or share capital)											
3. Surplus reserves offsetting losses											
4. Changes arising from defined benefit plans carried forward to retained earnings											
5. Other comprehensive income carried forward to retained earnings											
6. Others											
(V) Special reserves											
1. Amount withdrawn in current period											
2. Amount used in current period											
(VI) Others											
IV. Closing balance of current period	448,920,000.00				831,739,615.96		-123,507.71		151,796,998.48	962,736,645.92	2,395,069,752.65

Statement of Changes In Owners' Equity of Parent Company (Continued)

2022

Items	Other equity instruments				Amounts for the same period of prior year						Total owner's equity
	Paid-up capital (or share capital)	Preferred shares	Perpetual bonds	Others	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	448,920,000.00				831,739,615.96				115,160,268.18	682,656,625.21	2,078,476,509.35
Add: Changes in accounting policies											
Correction of errors in prior periods											
Others											
II. Opening balance of current year	448,920,000.00				831,739,615.96				115,160,268.18	682,656,625.21	2,078,476,509.35
III. Increase or decrease for the period (*- for decreases)									22,374,469.66	201,370,226.95	223,744,696.61
(I) Total comprehensive income										223,744,696.61	223,744,696.61
(II) Capital invested and decreased by owners											
1. Ordinary shares invested by owners											
2. Capital invested by holders of other equity instruments											
3. Amounts of share-based payments included in owners' equity											
4. Others											
(III) Profit distribution									22,374,469.66	-22,374,469.66	
1. Appropriation to surplus reserve									22,374,469.66	-22,374,469.66	
2. Distribution to owners (or shareholders)											
3. Others											
(IV) Internal carry-forward of owners' equities											
1. Capital reserve transferred to capital (or share capital)											
2. Surplus reserves transferred to capital (or share capital)											
3. Surplus reserves offsetting losses											
4. Changes arising from defined benefit plans carried forward to retained earnings											
5. Other comprehensive income carried forward to retained earnings											
6. Others											
(V) Special reserves											
1. Amount withdrawn in current period											
2. Amount used in current period											
(VI) Others											
IV. Closing balance of current period	448,920,000.00				831,739,615.96				137,534,737.84	884,026,852.16	2,302,221,205.96

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

NOTES TO THE FINANCIAL STATEMENTS

2022

Amount unit: RMB

1. GENERAL INFORMATION OF THE COMPANY

Hebei Yichen Industrial Group Corporation Limited (hereinafter referred to as the Company) was formerly known as Hebei Yichen Industrial Group Co., Ltd. (河北翼辰實業集團有限公司) (hereinafter referred to as Yichen Industrial Ltd.). Yichen Industrial Ltd. was jointly funded by 22 natural persons including Zhang Haijun. On 9 April 2001, Yichen Industrial Ltd. was registered in the Commerce and Administration Bureau in Hebei Province (河北省工商行政管理局) with its headquarters located in Shijiazhuang City, Hebei Province. The Company currently holds the business license for an enterprise as a legal person with a unified social credit code of 91130100107907438Y. The registered capital of the Company is RMB448,920,000 and its total number of shares is 897,840,000 shares of RMB0.5 each, among which, domestic shares were 673,380,000 shares and H shares were 224,460,000 shares. The H Shares of the Company were listed on the Main Board of the Hong Kong Stock Exchange on 21 December 2016.

The Company belongs to the manufacturing sector, and it is principally engaged in research and development, manufacturing and sales of products including rail fastening system, welding material and railway sleeper. Its main products include rail fastening system, welding material and sleeper. These financial statements have been approved for publication at the 13th meeting of the third session of the Board of the Company on 19 April 2023.

The Company has included seven subsidiaries in the consolidation scope for the consolidated financial statements for the current period, i.e. Shijiazhuang City Gaocheng District Yichen Corporate Management Services Co., Ltd.* (石家莊市藁城區翼辰企業管理服務有限公司) (hereinafter referred to as Yichen Corporate Management), Hebei Gaocheng District Yichen Railway Engineering Equipment Co., Ltd.* (石家莊市藁城區翼辰鐵路工務器材有限公司) (hereinafter referred to as Yichen Railway Engineering Equipment), Hebei Yichen Welding Co., Ltd.* (河北翼辰焊業有限公司) (hereinafter referred to as Yichen Welding), Xingtai Juneng Railway Electrical Equipment Co. LTD* (邢台炬能鐵路電氣器材有限公司) (hereinafter referred to as Xingtai Juneng), Hebei Zhongke Yichen New Material Research Co., Ltd.* (河北中科翼辰新材料研究有限公司) (hereinafter referred to as Zhongke Yichen New Material), Hebei Yichen Jinzhao Railway Technology Co., Ltd.* (河北翼辰金兆軌道科技有限公司) (hereinafter referred to as Yichen Jinzhao Railway) and Yichen Industrial (Hong Kong) Trading Co., Limited (hereinafter referred to as Yichen Hong Kong Trading). For details, please refer to notes 6 and 7 to these financial statements.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

These financial statements of the Company are prepared on a going concern basis.

(II) Evaluation on ability of continuing operation

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



Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Important note: The Company has developed specific accounting policies and accounting estimates regarding transaction or events such as impairment on financial instruments, depreciation of fixed assets, amortisation of intangible assets and revenue recognition according to actual production and operation features.

(I) Statement of compliance with the Accounting Standards for Business Enterprises

The Company has prepared the financial statements in compliance with the Accounting Standards for Business Enterprises in order to give a true and full view of the information on the financial conditions, operating results and cash flow of the Company.

(II) Accounting period

The fiscal year is from 1 January to 31 December of the Gregorian calendar.

(III) Operating cycle

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

(IV) Functional currency

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

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

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

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

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

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(VI) Preparation of consolidated financial statements**

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

(VII) Standards for determination of cash and cash equivalents

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

(VIII) Translation of foreign currency transactions and foreign currency statements**1. Translation of foreign currency transactions**

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

2. Translation of foreign currency financial statements

The assets and liabilities items in the balance sheet are translated at the spot exchange rate at the balance sheet date. Other items, excluding the "Undistributed profits", in the owners' equity are translated at the spot exchange rate at the date of transaction. The revenue and expenses items in the income statement are translated at the rates that approximate the spot exchange rate at the date of transaction. Translation differences of the foreign currency financial statements arising from the above translation are included in other comprehensive income.



Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(IX) Financial instruments

1. Classification of financial assets and financial liabilities

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

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

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

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

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(IX) Financial instruments** (*Continued*)2. *Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities* (*Continued*)(2) Subsequent measurement of financial assets

- 1) Financial assets measured at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging relationship shall be included in profit or loss when the financial asset is derecognised, reclassified, amortized using the effective interest method or recognised in respect of impairment.
- 2) Debt instrument investments at fair value through other comprehensive income
These debt instrument investments are subsequently measured at fair value. Interest, impairment losses or gains or foreign exchange gains and losses calculated using the effective interest method are included in profit or loss in the current period. Other gains or losses are included in other comprehensive income. On derecognition, the accumulated gains or losses previously included in other comprehensive income are transferred from other comprehensive income to profit or loss for the current period.
- 3) Equity instrument investments at fair value through other comprehensive income
These equity instrument investments are subsequently measured at fair value. Dividends obtained (excluding those obtained as investment costs recovered) are included in profit or loss for the current period, while other gains or losses are included in other comprehensive income. On derecognition, cumulative gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.
- 4) Financial assets at fair value through profit or loss for the current period
These financial assets are subsequently measured at fair value, and any gain or loss therefrom (including interest and dividend income) is included in profit or loss for the current period, unless such financial assets are part of the hedging relationship.



Notes to the Financial Statements *(Continued)*

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES *(Continued)***(IX) Financial instruments** *(Continued)*2. *Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities* *(Continued)*(3) Subsequent measurement of financial liabilities

- 1) Financial liabilities at fair value through profit or loss for the current period
These financial liabilities include trading financial liabilities (including derivative instruments classified as financial liabilities) and financial liabilities designated as at fair value through profit or loss for the current period. These financial liabilities are subsequently measured at fair value. Changes in fair value of financial liabilities designated as at fair value through profit or loss for the current period as a result of changes in the Company's own credit risk are included in other comprehensive income, unless this approach creates or enlarges an accounting mismatch in the profit or loss. Other gains or losses on these financial liabilities (including interest expenses and changes in fair value other than as a result of changes in the Company's own credit risk) are included in profit or loss for the current period, unless these financial liabilities are part of the hedging relationship. On derecognition, cumulative gains or losses previously included in other comprehensive income are transferred from other comprehensive income to retained earnings.
- 2) Financial liabilities arising from financial assets of which the transfer does not meet the conditions for derecognition or continue to be involved in transferred financial assets are measured in accordance with the Accounting Standard for Business Enterprises No.23 – Transfer of Financial Assets.
- 3) Financial guarantee contracts which do not fall into 1) or 2) above, and the commitments to grant loans which do not fall into 1) above and have an interest rate lower than the market rate
After initial recognition, these financial guarantee contracts and commitments to grant loans are subsequently measured at the higher of: ① provisions for losses determined according to requirements on the impairment of financial instruments; ② balance from the initially recognised amount less accumulated amortisation determined according to the Accounting Standard for Business Enterprises No.14 – Revenue.
- 4) Financial liabilities measured at amortised cost
These financial liabilities are measured at amortised cost using the effective interest method. Any gains or losses on financial liabilities measured at amortised cost which are not part of the hedging relationship are included in profit or loss for the current period when derecognised or amortised using the effective interest method.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(IX) Financial instruments** (*Continued*)2. *Recognition criteria, measurement method and derecognition conditions of financial assets and financial liabilities* (*Continued*)(4) Derecognition of financial assets and financial liabilities

- 1) Financial assets are derecognised when one of the following conditions is met:
 - ① the contractual right to the cash flows from such financial assets has expired;
 - ② such financial assets have been transferred, which meets the requirements of Accounting Standard for Business Enterprise No. 23 – Transfer of Financial Assets in relation to derecognition of financial assets.
- 2) A financial liability (or part of it) is derecognised accordingly where its present obligation (or part of it) is discharged.

3. *Recognition and measurement of transfer of financial assets*

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

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



Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(IX) Financial instruments** (*Continued*)4. *Determination of fair value of financial assets and financial liabilities*

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

- (1) Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the date of measurement;
- (2) Level 2 inputs are direct or indirect observable inputs for the relevant asset or liability other than Level 1 inputs, including: quoted price for similar assets or liabilities in an active market; quoted price for the same or similar assets or liabilities in an inactive market; other observable inputs excluding quoted price, such as interest rates and yield curves observable at commonly quoted intervals; inputs that are evidenced in market, etc.;
- (3) Level 3 inputs are unobservable inputs for the relevant asset or liability, including interest rates, stock volatility, future cash flows from the disposal obligations assumed in a business combination, financial forecast using internal data that are not directly observable or cannot be verified by observable market data.

5. *Impairment of financial instruments*(1) Impairment measurement and accounting treatment of financial instruments

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

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(IX) Financial instruments** (*Continued*)5. *Impairment of financial instruments* (*Continued*)(1) Impairment measurement and accounting treatment of financial instruments (*Continued*)

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

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

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

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

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

Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(IX) Financial instruments** (Continued)5. *Impairment of financial instruments* (Continued)(1) Impairment measurement and accounting treatment of financial instruments (Continued)

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

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

(2) Financial instruments with expected credit risk assessed on a group basis and expected credit loss measured under three-stage model

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

Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(IX) Financial instruments** (Continued)5. *Impairment of financial instruments* (Continued)(3) Receivables and contract assets with expected credit losses measured under simplified measurement approach and on a group basis

1) Specific group and expected credit loss measurement approach

Item	Grouping basis	Expected credit loss measurement approach
Bank acceptance notes receivable	Type of notes	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate
Trade acceptance notes receivable Accounts receivable – grouped by payment Accounts receivable – grouped by retention monies	Ageing	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the comparison table prepared for receivables aging and lifetime expected credit loss rate
Contract assets – grouped by retention monies Accounts receivable – group of related parties within the scope of combination	Retention monies Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate

Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(IX) Financial instruments** (Continued)

5. Impairment of financial instruments (Continued)

(3) Receivables and contract assets with expected credit losses measured under simplified measurement approach and on a group basis (Continued)

- 2) Comparison table of trade acceptance notes receivable and accounts receivable – grouped by age and the lifetime expected credit loss

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

- 3) Comparison table of accounts receivable – grouped by age and the lifetime expected credit loss

Ageing	Expected credit loss rate of accounts receivable – grouped by retention monies (%)
Within 1 year (inclusive, same below)	15.00
1 to 2 years	15.00
2 to 3 years	30.00
3 to 4 years	50.00
4 to 5 years	80.00
Over 5 years	100.00

The ageing calculation of accounts receivable – grouped by retention monies starts at the expiry of the retention monies, while the ageing calculation of trade acceptance notes receivable and accounts receivable – grouped by payment starts on the day when revenue is recognised and accounts receivable – payment occurs.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(IX) Financial instruments** (*Continued*)6. *Offset of financial assets and financial liabilities*

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

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

(X) Inventories1. *Categories of inventories*

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

2. *Accounting method for dispatching inventories*

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

3. *Basis for determining net realisable value of inventories*

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

4. *Inventory system*

Perpetual inventory method is adopted.

5. *Amortisation method of low-value consumables and packages*(1) Low-value consumables

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

(2) Packages

Packages are amortised in full when received for use.



Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XI) Contract Costs

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

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

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

1. Such costs are directly related to a contract currently or expected to be acquired, including direct labour costs, direct material costs, manufacturing costs (or similar costs), costs to be borne by customers as agreed, and other costs solely as a result of such contract;
2. Such costs help increase resources for the Company to perform obligations in the future;
3. Such costs are expected to be recovered.

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

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XII) Long-term Equity Investments***1. Judgement on joint control and significant effects*

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

2. Determination of investment cost

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

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XII) Long-term Equity Investments** (*Continued*)2. *Determination of investment cost* (*Continued*)

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

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

- 1) In separate financial statements, investment cost which is accounted for using the newly adopted cost method is initially recognised at the book value of the previously held longterm equity investments plus the newly increased initial investment cost.
- 2) In consolidated financial statements, the Company determines whether it is a “package deal”. If it is a “package deal”, transactions as a whole are treated as one transaction obtaining the right to control in accounting treatment. If it is not a “package deal”, the book value of the acquirer’s previously held equity interest in the acquiree is remeasured at the acquisition-date fair value, and the difference between the fair value and the book value is recognised in investment income for the current period; when the acquirer’s previously held equity interest in the acquiree involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or net assets from remeasurement of defined benefit plan of the acquiree.
- (3) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “Accounting Standards for Business Enterprises No.12 – Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “Accounting Standards for Business Enterprises No. 7 – Non-cash Assets Exchange”.

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

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XII) Long-term Equity Investments** (*Continued*)4. *Accounting treatment of disposal of investment in a subsidiary to loss of control in stages through various transactions*(1) Separate financial statements

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

(2) Consolidated financial statements

1) For the disposal of investment in a subsidiary to loss of control in stages through various transactions that are not categorized as “package deal”

Prior to the loss of control, the capital reserve (capital premium) is adjusted with the difference between the consideration of the disposal and the entitled share of the net assets of the subsidiary that would have been entitled to by the disposed long-term equity investment and continuously accounted for from the acquisition date or combination date. If the balance of the capital premium is insufficient for the set-off, then the retained earnings will be set off accordingly.

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

2) For the disposal of investment in a subsidiary to loss of control in stages through various transactions that are categorized as “package deal”

The transactions as a whole are treated as one single transaction of disposal of a subsidiary and loss of control in accounting treatment. However, prior to the loss of control, the difference between each of the consideration of disposal and the share of net assets of that subsidiary that would have been entitled to by the disposed investment is recognised as other comprehensive income in the consolidated financial statements and transferred to profit or loss for the period when the control is lost.



Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(XIII) Fixed Assets**1. *Recognition criteria of fixed assets*

Fixed assets represent the tangible assets held for production or supply of goods or services, rental or for administrative purposes with useful lives over one accounting year, and are recognised when the inflow of economic benefits is probable and the cost can be reliably measured.

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

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

(XIV) Construction in Progress

- Construction in progress is recognised when the inflow of economic benefits is probable and the cost can be reliably measured, and is measured at the actual cost incurred until it is ready for intended use.
- Construction in progress is transferred to fixed assets when it is ready for its intended use based on the actual cost. For a completed project ready for intended use but with final account unsettled, the asset is transferred to fixed assets based on estimated value. After final account of the project has been settled, the Company shall make adjustment to the previous estimated value based on actual cost, but need not to adjust the depreciation retrospectively.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XV) Borrowing Costs***1. Recognition principles on capitalisation of borrowing costs*

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

2. Capitalisation period of borrowing costs

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

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

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

3. Capitalisation rate and amount of borrowing costs

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

Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(XVI) Intangible Assets**

1. Intangible assets, including land use rights, software, are initially measured at cost.
2. Intangible assets with definite useful lives are reasonably and systematically amortised over their useful lives based on the pattern of the economic benefits relating to the intangible assets that are expected to be realised. Intangible assets whose economic benefits realisation pattern cannot be reliably anticipated are amortised on a straight-line basis over the following useful life:

Item	Years of amortization (year)
Land use rights	50
Software	5

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

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XVII) Partial Long-term Asset Impairment**

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

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

(XVIII) Long-term Deferred Expenses

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

(XIX) Employee Benefits

1. *Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long term employee benefits.*
2. *Accounting treatment of short-term remuneration*
During the accounting period when the staff provides service, the Company will recognise the short-term remuneration incurred as liabilities, and the liabilities would be included in current profit or loss or the relevant costs of assets.

Notes to the Financial Statements (*Continued*)

2022

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

(XIX) Employee Benefits (*Continued*)

3. Accounting treatment of post-employment benefits

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

- (1) During the accounting period when the staff provides service, the Company will recognise the amount payable calculated under defined contribution plan as liabilities, and the liabilities would be included in current profit or loss or the relevant costs of assets.
- (2) Accounting treatment of defined benefit plan normally comprises steps as follow:
 - 1) According to the projected unit credit method, the Company adopted unbiased and mutually agreed actuarial assumptions to estimate the relevant demographic variables and financial variables, calculate the obligations arising from the defined benefit plan and determine the period of relevant obligations belonging to. Meanwhile, the obligation arising from the defined benefit plan is discounted to determine the present value of such obligation under the defined benefit plan and the service cost for the current period;
 - 2) Where there are assets in the defined benefit plan, the deficit or surplus from the present value of the defined benefit plan less the fair value of the defined benefit plan are recognised as a net debt or asset of a defined benefit plan. Where there are surplus in the defined benefit plan, the lower of the surplus of the defined benefit plan and the upper limit of the assets will be used to calculate the net assets of the defined benefit plan;
 - 3) At the end of the period, the cost of employee benefits from the defined benefit plan will be recognised as three parts, such as the service cost, the net interest on the net liabilities or net assets from the defined benefit plan and the changes arising from the remeasurement of the net liabilities or net assets from the defined benefit plan. Of these, the service cost and the net interest on the net liabilities or net assets from the defined benefit plan will be recognised in current profit or loss or relevant assets cost. The changes arising from the remeasurement of the net liabilities or net assets from the defined benefit plan will be recognised in other comprehensive income and shall not be reversed to profit or loss in subsequent accounting periods, but the amounts recognised in other comprehensive income can be transferred within the scope of interests.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XIX) Employee Benefits** (*Continued*)4. *Accounting treatment of termination benefits*

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

5. *Accounting treatment of other long-term employee' benefits*

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

(XX) Provision for Liabilities

1. Provisions for liabilities are recognised when the Company has a present obligation as a result of contingencies such as provision of external guarantee, litigation, product quality warranty, and onerous contract, and it is very likely that an outflow of economic benefits will be resulted from settlement of such obligation, and a reliable estimate of the amount of the obligation can be made.
2. Provisions for liabilities are initially stated at the best estimate of the expenditure that is required for settling the present obligation. Book values of provisions for liabilities are reviewed at balance sheet date.



Notes to the Financial Statements (*Continued*)

2022

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

(XXI) Revenue

1. Principles on recognition of revenue

At contract inception, the Company assesses the contract to identify each individual performance obligation thereunder and to determine whether the performance obligation is satisfied over time or at a point in time.

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

For a performance obligation satisfied over time, the Company shall recognise revenue over time by measuring the progress towards complete satisfaction of that performance obligation. If the Company is unable to reasonably measure its progress towards complete satisfaction of a performance obligation and expects to recover the costs incurred, the Company shall recognise revenue only to the extent of the costs incurred until such time that it can reasonably measure progress towards complete satisfaction of the performance obligation. For a performance obligation satisfied at a point in time, the Company shall recognise revenue when customer obtains control of relevant goods or services. To determine whether a customer obtains control of goods, the Company shall consider the following indicators: (1) the Company has a present right to receive the payment for the goods, i.e. a customer has a present obligation to pay for the goods; (2) the Company has transferred the legal title of the goods to the customer, i.e. the customer has the legal title of the goods. (3) the Company has transferred physical possession of the goods to the customer, i.e. the customer has physical possession of the goods; (4) the Company has transferred significant risks and rewards of ownership of the goods to the customer, i.e. the customer has the significant risks and rewards of ownership of the goods; (5) the customer has accepted the goods; (6) other indications that the customer has obtained control of the goods.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXI) Revenue** (*Continued*)2. *Principles on the measurement of revenue*

- (1) The Company measures revenue through allocating the transaction price to each performance obligation. The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties and amounts expected to be refunded to the customers.
- (2) If the consideration promised in a contract includes a variable amount, the Company shall estimate the amount of consideration by using either of the expected value or the most likely amount, provided that the transaction price including the variable consideration does not exceed the amount for which the accumulative recognised income is unlikely to undergo a major reversal when the relevant uncertainty is eliminated.
- (3) Where there is a significant financing component in the contract, the Company determines the transaction price based on the amount payable in cash when it is assumed that the customer has taken the control of goods or services. The difference between the transaction price and the contract consideration is amortised using the effective interest method during the contract period. On the contract start date, the Company does not consider the major financing components in the contract when it expects that the difference between customer taking the control of goods or services and the payment of the customer price is not more than one year.
- (4) Where the contract includes two or more performance obligations, the Company shall amortise the transaction price to each individual performance obligation on the contract start date in line with the relative proportion of the individual selling prices of the goods.

3. *Specific methods for revenue recognition*

The Company mainly sells products such as railway fasteners, welding material and railway sleepers and etc., and fulfills its performance obligations at a certain point of time. The recognition of the revenue from the domestic sales of products should meet the following conditions: the Company has transported the products to the project sites or customer unit based on contract and the project construction unit or customer unit has signed for receipt, the payment has been recovered or the receipt of goods has been obtained; the relevant economic benefits are likely to flow in; the significant risks and rewards of ownership of goods have been transferred and the customer has obtained control over the goods. The recognition of the revenue of the exported products should meet the following conditions: the Company has declared the goods according to the contract and obtained the bill of lading, has recovered the payment or obtained the receipt certificate and the relevant economic benefits are likely to flow in; the significant risks and rewards of ownership of goods have been transferred and the customer has obtained control over the goods.



Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXII) Government Grants**

1. Government grants are recognised when (1) the Company is able to comply with the conditions attached to the government grants; (2) the Company is able to receive the government grants. Government grants which are monetary assets shall be measured at the amount received or receivable. Government grants which are non-monetary assets shall be measured at fair value, or at nominal amount if the fair value cannot be reliably measured.
2. *Judgment basis and accounting treatment on the government grants relating to assets*
Government grants which shall be used for constructing or otherwise forming long-term assets as specified in government documents are classified as government grants related to assets. In the absence of specific requirements in government documents, the determination is made according to basic conditions for obtaining the grants; if constructing or otherwise forming long-term assets is treated as a basic condition, the grants are classified as government grants related to assets. Government grants relating to assets are offset against the book value of such assets or recognised as deferred income. Government grants relating to assets recognised as deferred income are included in profit or loss on a reasonable and systematic basis over the useful lives of the relevant assets. Government grants measured at notional amount are directly recorded in profit or loss. For assets sold, transferred, disposed or damaged prior to the end of their useful lives, balance of unallocated deferred income is transferred to profit or loss for the period in which the disposal occurred.
3. *Judgment basis and accounting treatment on the government grants relating to revenue*
Other than government grants pertinent to assets, other government grants are government grants pertinent to income. The Company classifies government grants that contain both assets-related and income-related portion or those that are difficult to distinguish as the ones related to income on an entire basis. Government grants relating to income and applied towards reimbursement of related costs or losses in subsequent periods are recognised as deferred income and taken to current profit or loss or offset the related costs for the period in which the related costs or losses are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss or offset the related costs.
4. Government grants related to the Company's daily operations are included in other income or offset against relevant expenses according to the economic nature of business. Government grants that are not related to the Company's daily operations are included in the non-operating income or expenses.
5. *Accounting treatment of interest subsidies for policy-related preferential loans*
 - (1) For interest subsidies appropriated by government to a loan bank which will provide loans to the Company at a policy-related preferential rate, the actual amount of the borrowings received is recorded as the book value and the relevant borrowing costs are calculated according to the principal of the borrowings and the policy-related preferential interest rate.
 - (2) For interest subsidies directly appropriated by government to the Company, the interest subsidies shall be used to offset against relevant borrowing costs.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXIII) Contract Assets, Contract Liabilities**

The Company presents contract assets or contract liabilities in the balance sheet based on the relationship between performance obligations and customer payments. The Company presents the net amount after offsetting the contract assets with the contract liabilities under the same contract.

The Company's unconditional (i.e., depending only on the passage of time) right to collect consideration from customers is presented separately as receivables, whereas the right to collect consideration from customers who have received the goods transferred (which depends on factors other than the passage of time) is presented as contract assets.

Contract liabilities are presented for the obligation of transferring goods to customers when an amount of consideration has been received or is receivable by the Company

(XXIV) Deferred Income Tax Assets and Deferred Income Tax Liabilities

1. Deferred income tax assets or deferred income tax liabilities are recognised based on the difference between the book values of the assets or liabilities and their tax bases (or, for an item not recognised as assets or liabilities but whose tax base can be determined under tax laws, the difference between the tax base and the book value), and are calculated at the tax rates expected to apply to the period in which the assets are recovered or the liabilities are settled.
2. Deferred income tax assets are recognised for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. At the balance sheet date, deferred income tax assets unrecognised in previous accounting periods are recognised to the extent that there is obvious evidence that it has become probable that sufficient taxable profit will be available in subsequent periods against which the deductible temporary differences can be utilised.
3. The book value of deferred income tax assets is reviewed at the balance sheet date and written down to the extent that it is no longer probable that sufficient taxable profit will be available in future periods against which the deferred income tax assets can be utilised. Such amount is written back to the extent that it has become probable that sufficient taxable profit will be available.
4. The Company's current and deferred income taxes are recognised in current profit or loss as tax expense or profit, excluding income tax arising from: (1) business combination; (2) transactions or items directly recognised in owners' equity.

Notes to the Financial Statements (Continued)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued) (XXV) Lease

1. The Company as a lessee

On the commencement date of the lease term, the Company recognises the leases which have a term of 12 months or less and does not include any purchase options as a short-term lease; the separate leased asset has a low value when new is recognised as a lease of low-value assets. If the Company subleases or expects to sublease the leased assets, the original lease is not recognised as a lease of low-value assets.

For all short-term leases and leases of low-value assets, the Company accounts the lease payments into the relevant asset costs or the current profit or loss using the straight-line method in each period of the lease term.

In addition to the above-mentioned accounting treatment for short-term leases and leases of low-value assets using simplified approach, the Company recognises the right-of-use assets and lease liabilities for the lease at the beginning of the lease term.

(1) Right-of-use assets

The right-of-use assets shall be initially measured at costs. Such costs include: 1) the initial amount of measurement of the lease liabilities; 2) the lease payment paid on or before the commencement date of the lease term (if there is a lease incentive, the amount of the lease incentive that has been received shall be deducted); 3) initial direct costs incurred by the lessee; 4) the cost that the lessee expects to occur for dismantling and removing the leased assets, restoring the site where the leased assets are located, or restoring the leased assets to the agreed status under the terms of the lease terms.

The Company shall make a provision for depreciation on the right-of-use assets using the straight-line method. If it is reasonable to determine that the ownership of the leased assets can be obtained at the expiration of the lease term, the Company shall make a provision for depreciation within the remaining useful life of the leased asset. If it is not reasonable to determine that the ownership of the leased asset can be obtained at the expiration of the lease term, the Company shall make a provision for depreciation at the shorter of the lease term and the remaining useful life of the leased asset.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXV) Lease** (*Continued*)1. *The Company as a lessee* (*Continued*)(2) Lease liabilities

On the lease start date, the Company recognises the present value of the unpaid lease payments as lease liabilities. When calculating the present value of lease payments, the implied interest rate of lease is used as the discount rate. If the implied interest rate of lease cannot be determined, the incremental borrowing rate of the Company is used as the discount rate. The difference between the lease payments and its present value is regarded as the unrecognised financing expense. During each period of the lease term, its interest expense is measured at the discount rate for determining the present value of the lease payments, and is included in the current profit or loss. The variable lease payments not included in the measurement of lease liabilities are included in the current profit or loss when they actually occur.

After the commencement date of the lease term, when there is a change in the actual fixed payments, the estimated payable amount of the guarantee residual value, the index or ratio used to determine the lease payments, the evaluation result or the actual exercise situation of the purchase option, the renewal option or the termination option change, the Company remeasures the lease liabilities according to the present value of the changed lease payments and adjusts the book value of the right-of-use asset accordingly. If the book value of the right-of-use asset has been reduced to zero but the lease liability still needs to be further reduced, the Company accounts for the remaining amount in the current profit or loss.

2. *Leaseback*The Company as lessee

The Company evaluates and determines whether the asset transfer in the sale and leaseback transactions is a sale or not in accordance with Accounting Standard for Business Enterprises No.14 – Revenue.

If the asset transfer in the sale and leaseback transaction belongs to the sale, the Company measures the right-of-use assets formed by the sale and leaseback according to the book value of the original assets related to the right to use obtained in the leaseback, and recognises the relevant gains or losses only for the right transferred to the lessor.

If the transfer of assets in the sale and leaseback transaction does not belong to the sale, the Company continues to recognise the transferred assets, at the same time recognise a financial liability equal to the transfer income, and carry out accounting treatment for the financial liability in accordance with the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments.



Notes to the Financial Statements (*Continued*)

2022

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

(XXVI) Significant Accounting Judgments and Estimates

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

Key sources of estimation uncertainty are as follows:

1. *Recognition of deferred income tax assets*

As stated in note 3(XXIV) to these financial statements, deferred income tax assets are recognised on the basis of the deductible temporary differences between the book values of the assets and liabilities and their tax bases (for an item not recognised as asset and liability but for which tax base can be determined under tax laws, the difference between its tax base and its book value), and are calculated by applying the tax rates applicable to the period in which the assets are expected to be recovered or the liabilities are expected to be settled. Deferred income tax assets are recognised for deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

2. *Impairment of financial instruments and contract assets*

As stated in note 3(IX) to these financial statements, based on expected credit losses, the Company accounts for the impairment of, and recognises provisions for losses on, financial assets measured at amortized cost (notes receivable and accounts receivable, other receivables), debt instrument investments at fair value through other comprehensive income (financing of accounts receivables) and contract assets.

3. *Provision for impairment of inventories*

As stated in note 3(X) to these financial statements, at the balance sheet date, the Company's inventories are measured at the lower of cost and net realisable value. Provision for impairment is made for the excess of the cost over the net realisable value of individual inventory. For inventories for immediate sale, net realisable value is determined as the estimated selling price of the inventories less the estimated costs of sales and relevant taxes and levies in the ordinary course of business. For inventories that require processing, net realisable value is determined as the amount of the estimated selling price of the finished goods produced less the estimated costs to completion, the estimated costs of sales and relevant taxes and levies in the ordinary course of business. At the balance sheet date, where part of an inventory item is subject to an agreed contractual price while the remainder is not, their net realisable values are determined separately and compared with their respective costs to determine the amount of provision for impairment made or released.

Notes to the Financial Statements (*Continued*)

2022

3. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXVI) Significant Accounting Judgments and Estimates** (*Continued*)4. *Impairment of long-term assets*

As stated in note 3(XXVII) to these financial statements, for long-term assets such as long-term equity investments, fixed assets, construction in progress, right-of-use assets and intangible assets with limited useful lives, its recoverable amount will be estimated when there is an indication of impairment at the balance sheet date. Goodwill arising from a business combination and an intangible asset with an indefinite useful life shall be subject to the annual impairment test, irrespective of whether there is any indication of impairment. Impairment test will be conducted on goodwill together with the related asset group or asset group portfolio. If the result of recoverable amount measurement indicates that the recoverable amount of such long-term assets is less than its book value, the book value of the assets will be reduced to its recoverable amount. That reduction is recognised as an impairment loss of assets and charged to profit or loss for the current period. A provision for impairment of the assets is recognised accordingly.

(XXVII) Changes in Significant Accounting Policies

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

1. The Company has adopted the provision of the Interpretation No.15 of the Accounting Standards for Business Enterprises – Accounting treatment for the external sales of products or by-products produced by an enterprise before the fixed assets are ready for their intended use or in the process of research and development issued by the Ministry of Finance since 1 January 2022. Such changes in the accounting policies have no impact on the Company's financial statements.
2. The Company has adopted the provision of the Interpretation No.15 of the Accounting Standards for Business Enterprises – Judgement on onerous contracts, issued by the Ministry of Finance since 1 January 2022. Such changes in the accounting policies have no impact on the Company's financial statements.
3. The Company has adopted the provision of the Interpretation No.16 of the Accounting Standards for Business Enterprises – Accounting treatment for the income tax effect of dividends related to financial instruments classified as equity instruments by the issuer issued by the Ministry of Finance since 30 November 2022. Such changes in the accounting policies have no impact on the Company's financial statements.
4. The Company has adopted the provision of the Interpretation No.16 of the Accounting Standards for Business Enterprises – Accounting treatment of an enterprise's modification of cash-settled share-based payment to equity-settled share-based payment issued by the Ministry of Finance since 30 November 2022. Such changes in the accounting policies have no impact on the Company's financial statements.



Notes to the Financial Statements (Continued)

2022

4. TAXATION**(I) Major Taxes and Tax Rate**

Type of tax	Basis	Tax rate
Value added tax	The output tax calculated based on the revenue from sales of goods or rendering of taxable services in accordance with the tax law, net of the input tax that is allowed to be deducted in the current period	13%, 9%, 6%
Property tax	For ad valorem taxes, the taxes is calculated based on 1.2% of the property value less 30%	1.2%
Urban maintenance and construction tax	Actual amount of turnover tax payable	5%, 7%
Education surcharge	Actual amount of turnover tax payable	3%
Local education surcharge	Actual amount of turnover tax payable	2%
Corporate income tax	Amount of taxable income	15%, 16.50%, 20%, 25%

Details of corporate income tax rates of different entities

Name of entity	Income tax rate
The Company and Xingtai Juneng	15%
Yichen Hong Kong Trading	16.50%
Yichen Corporate Management	20%
Other entities excluding those above-mentioned	25%

Notes to the Financial Statements (*Continued*)

2022

4. TAXATION (*Continued*)**(II) Tax Incentives**

1. On 18 September 2021, the Company obtained the High-tech Enterprise Certificate (No. GR202113001359), which was approved by review and valid for three years. The Company is subject to a corporate income tax rate of 15% for 2022.
2. On 1 December 2020, Xingtai Juneng, the subsidiary of the Company, obtained the High-tech Enterprise Certificate (No. GR202013002745) with an effective period of three years. Xingtai Juneng is subject to a corporate income tax rate of 15% for 2022.
3. According to the Announcement on the Implementation of the Preferential Income Tax Policies for Micro and Small Enterprises and Individual Industrial and Commercial Households (Announcement No. 12 [2021] of the Ministry of Finance and the State Taxation Administration) issued by the Ministry of Finance and the State Taxation Administration 《財政部稅務總局關於實施小微企業和個體工商戶所得稅優惠政策的公告》(財政部稅務總局公告2021年第12號)), from 1 January 2021 to 31 December 2022, the small low-profit enterprises with an annual income tax payable of less than RMB1 million are subject to an enterprise income tax rate of 20% after an reduction of 12.5% of the assessable tax amount. Yichen Corporate Management was qualified as a small low-profit enterprise, and was entitled to enjoy the above tax incentive policy in 2022.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(I) Notes to the Consolidated Balance Sheet**1. *Monetary funds*(1) Breakdown

Item	Closing balance	Closing balance of last year
Cash on hand	57,132.09	38,352.37
Bank deposits	79,460,013.48	75,344,845.67
Other monetary funds	80,418,213.58	81,920,096.83
Total	159,935,359.15	157,303,294.87
Including: total funds placed in overseas	201,513.25	798,798.91

(2) Other description

Item	Closing balance	Closing balance of last year
Term deposits		10,245,000.00
Judicially frozen funds	2,941,731.44	
Other monetary funds	80,418,213.58	81,920,096.83
Including: Performance bond	53,675,915.15	45,323,280.03
Deposits for bank acceptance notes	25,331,612.92	34,830,372.10
Migrant workers' advance deposits	966,239.20	963,795.28
Asset management plan custodian bank and fund in stock account	444,446.31	802,649.42
Sub-total	83,359,945.02	92,165,096.83

As at 31 December 2022, RMB2,941,731.44 of our bank deposits was subject to judicial freezing, with restricted use of capital.

Other monetary funds have restricted usage except for asset management plan custodian bank and fund in stock accounts.

Notes to the Financial Statements (*Continued*)
2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*Continued*)

(I) Notes to the Consolidated Balance Sheet (*Continued*)

2. *Financial assets held for trading*

(1) Breakdown

Item	Closing balance	Closing balance of last year
Financial assets at fair value through profit or loss for the current period	207,524,486.40	106,878,797.76
Including: Equity instruments investment	207,524,486.40	106,878,797.76
Total	207,524,486.40	106,878,797.76

(2) Other description

At the end of 2022 and the end of 2021, equity instruments investment represented the shares of Hong Kong listed companies purchased by the Company.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

3. Notes receivable

(1) Breakdown

1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Percentage of provision (%)	
Provision for bad debts made as per portfolio	69,323,416.93	100.00	1,984,405.60	2.86	67,339,011.33
Including: Bank acceptance notes	61,337,627.24	88.48			61,337,627.24
Trade acceptance notes	7,985,789.69	11.52	1,984,405.60	24.85	6,001,384.09
Total	69,323,416.93	100.00	1,984,405.60	2.86	67,339,011.33

Category	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Percentage of provision (%)	
Provision for bad debts made as per portfolio	74,888,987.41	100.00	6,135,068.06	8.19	68,753,919.35
Including: Bank acceptance notes	54,219,197.88	72.40			54,219,197.88
Trade acceptance notes	20,669,789.53	27.60	6,135,068.06	29.68	14,534,721.47
Total	74,888,987.41	100.00	6,135,068.06	8.19	68,753,919.35

2) Notes receivables with provision for bad debts made as per portfolio

Item	Book balance		Closing balance	
	Amount	Proportion (%)	Provision for bad debts	Percentage of provision (%)
Bank acceptance notes portfolio	61,337,627.24			
Trade acceptance notes portfolio	7,985,789.69		1,984,405.60	24.85
Sub-total	69,323,416.93		1,984,405.60	2.86

Notes to the Financial Statements (Continued)
2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

3. Notes receivable (Continued)

(2) Changes in provision for bad debt

Item	Opening balance	Increase in the period			Decrease in the period			Closing balance
		Provision	Recovery	Others	Reversal	Write-off	Others	
Provision for bad debts made individually								
Provision for bad debts made as per portfolio	6,135,068.06	-4,150,662.46						1,984,405.60
Total	6,135,068.06	-4,150,662.46						1,984,405.60

(3) Notes receivable that were not mature as at the balance sheet date but had been endorsed or discounted by the Company at the end of the period

Item	Amount derecognised at the end of the period	Amount not derecognised at the end of the period
Bank acceptance notes		56,495,932.15
Trade acceptance notes		4,765,789.69
Sub-total		61,261,721.84

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

4. Accounts receivable

(1) Breakdown

1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Percentage of provision (%)	
Provision for bad debts made individually	12,496,078.44	0.83	12,496,078.44	100.00	
Provision for bad debts made as per portfolio	1,490,339,175.37	99.17	181,679,792.93	12.19	1,308,659,382.44
Total	1,502,835,253.81	100.00	194,175,871.37	12.92	1,308,659,382.44

Category	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Percentage of provision (%)	
Provision for bad debts made individually	13,132,699.88	1.13	13,132,699.88	100.00	
Provision for bad debts made as per portfolio	1,152,527,364.18	98.87	126,024,664.44	10.93	1,026,502,699.74
Total	1,165,660,064.06	100.00	139,157,364.32	11.94	1,026,502,699.74

2) Accounts receivable with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Customer 1	2,658,928.00	2,658,928.00	100.00	Bankrupted and reorganised
Customer 2	1,697,366.42	1,697,366.42	100.00	Execution applied
Customer 3	1,547,308.00	1,547,308.00	100.00	Execution applied
Customer 4	1,292,293.60	1,292,293.60	100.00	Bankrupted and liquidated
Others	5,300,182.42	5,300,182.42	100.00	Litigated, with low possibility of payment recovery
Sub-total	12,496,078.44	12,496,078.44	100.00	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet (Continued)**

4. Accounts receivable (Continued)

(1) Breakdown (Continued)

3) Accounts receivables with provision for bad debts made as per portfolio

① Accounts receivables with provision for bad debts made by as per portfolio

Item	Closing balance		Percentage of provision (%)
	Book balance	Provision for bad debts	
Payment portfolio	1,386,039,523.07	158,643,582.05	11.45
Retention monies portfolio	104,299,652.30	23,036,210.88	22.09
Sub-total	1,490,339,175.37	181,679,792.93	12.19

② Accounts receivables – payment portfolio, trade receivables with provision for bad debts against the expected credit loss rate comparison table

Ageing	Closing balance		Percentage of provision (%)
	Book balance	Provision for bad debts	
Within 1 year	845,869,936.84	16,917,398.74	2.00
1 to 2 years	360,800,010.60	36,080,001.06	10.00
2 to 3 years	57,040,378.95	17,112,113.69	30.00
3 to 4 years	58,576,121.10	29,288,060.55	50.00
4 to 5 years	22,535,337.84	18,028,270.27	80.00
Over 5 years	41,217,737.74	41,217,737.74	100.00
Total	1,386,039,523.07	158,643,582.05	11.45

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet (Continued)**

4. Accounts receivable (Continued)

(1) Breakdown (Continued)

3) Accounts receivables with provision for bad debts made as per portfolio (Continued)

- ③ Accounts receivables – retention monies portfolio, trade receivables with provision for bad debts against the expected credit loss rate comparison table

Ageing	Closing balance		
	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year	56,275,992.92	8,441,398.94	15.00
1 to 2 years	19,550,624.16	2,932,593.63	15.00
2 to 3 years	16,435,453.33	4,930,636.00	30.00
3 to 4 years	9,661,610.68	4,830,805.34	50.00
4 to 5 years	2,375,971.21	1,900,776.97	80.00
Total	104,299,652.30	23,036,210.88	22.09

(2) Ageing analysis

Ageing	Closing balance			Closing balance of last year		
	Book balance	Provision for bad debts	Percentage of provision (%)	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year	902,145,929.76	25,358,797.68	2.81	830,100,024.28	21,796,182.35	2.63
1 to 2 years	380,350,634.76	39,012,594.69	10.26	156,260,193.16	16,575,789.40	10.61
2 to 3 years	73,475,832.28	22,042,749.69	30.00	83,687,620.81	25,106,286.25	30.00
3 to 4 years	68,237,731.78	34,118,865.89	50.00	34,111,679.55	18,103,765.29	53.07
4 to 5 years	26,304,952.87	21,322,691.06	81.06	19,791,874.71	15,866,669.48	80.17
Over 5 years	52,320,172.36	52,320,172.36	100.00	41,708,671.55	41,708,671.55	100.00
Total	1,502,835,253.81	194,175,871.37	12.92	1,165,660,064.06	139,157,364.32	11.94

The ageing analysis of accounts receivable is based on the month in which the amount actually occurs. The amount that occurs first has priority in settlement upon turnover of funds. The credit period granted by the Company to customers is generally based on the contract between the Company and customers. Overdue receivables are regularly reviewed by management.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet (Continued)**

4. Accounts receivable (Continued)

(3) Changes in provision for bad debt

Item	Opening balance	Increase in the period			Decrease in the period			Closing balance
		Provision	Recovery	Others (Note)	Reversal	Write-off	Others	
Provision for bad debts made individually	13,132,699.88				636,621.44			12,496,078.44
Provision for bad debts made as per portfolio	126,024,664.44	50,847,393.72		4,807,734.77				181,679,792.93
Sub-total	139,157,364.32	50,847,393.72		4,807,734.77	636,621.44			194,175,871.37

Note: Other increases for the period represented the transfer of the impairment provision for matured retention monies from impairment provision for contract assets to bad debt provision for accounts receivable

(4) Top 5 entities by the amount of accounts receivable

Name of entity	Book balance	Percentage of the balance of accounts receivable (%)	Provision for bad debt
Customer 5	333,317,137.38	22.18	14,277,184.84
Customer 6	96,377,005.30	6.41	29,069,179.06
Customer 7	85,262,124.58	5.67	5,983,858.72
Customer 8	79,664,915.87	5.30	6,625,302.09
Customer 9	71,232,034.07	4.75	4,199,888.97
Sub-total	665,853,217.20	44.31	60,155,413.68

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)5. *Financing of accounts receivables*(1) Breakdown

Item	Closing balance		Closing balance of last year	
	Book value	Accumulated recognised provision for credit impairment	Book value	Accumulated recognised provision for credit impairment
Bank acceptance notes	2,716,759.60		6,361,000.00	
Total	2,716,759.60		6,361,000.00	

(2) Notes receivable that were not mature as at the balance sheet date but had been endorsed or discounted by the Company at the end of the period

Item	Amount derecognised at the end of the period
Bank acceptance notes	59,712,630.59
Sub-total	59,712,630.59

The acceptors of the bank acceptance notes with higher credit ratings are large and medium-sized commercial banks, as those commercial banks have a higher credit rating, the possibility of failure in honoring at the expiry of the bank acceptance notes is low, therefore, the Company derecognises the bank acceptance notes of banks with higher credit ratings upon endorsement or discounting of such notes. However, if such bank acceptance notes are not settled when they become due, the Company will still bear joint liability to bill holders in accordance with the provisions of the Negotiable Instruments Law.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)6. *Prepayments*(1) Ageing analysis

Ageing	Closing balance			Closing balance of last year			
	Book balance	Proportion (%)	Provision for impairment Book value	Book balance	Proportion (%)	Provision for impairment Book value	Book value
Within 1 year	37,402,594.60	98.31	37,402,594.60	31,266,531.71	99.91		31,266,531.71
1 to 2 years	642,018.41	1.69	642,018.41	22,673.47	0.07		22,673.47
2 to 3 years				1,390.86	0.01		1,390.86
Over 3 years				2,541.03	0.01		2,541.03
Total	38,044,613.01	100.00	38,044,613.01	31,293,137.07	100.00		31,293,137.07

(2) Top 5 entities by the amount of prepayments

Name of entity	Book balance	Percentage of the balance of prepayments (%)
Supplier 1	13,420,004.91	35.27
Supplier 2	8,260,956.77	21.71
Supplier 3	5,812,903.27	15.28
Supplier 4	3,566,091.21	9.37
Supplier 5	1,977,710.30	5.20
Sub-total	33,037,666.46	86.84

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

7. Other receivables

(1) Breakdown

1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	761,173.00	4.92	761,173.00	100.00	
Provision for bad debts made as per portfolio	14,700,157.91	95.08	2,234,274.66	15.20	12,465,883.25
Total	15,461,330.91	100.00	2,995,447.66	19.37	12,465,883.25

Category	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	761,173.00	6.74	761,173.00	100.00	
Provision for bad debts made as per portfolio	10,533,169.51	93.26	2,428,802.38	23.06	8,104,367.13
Total	11,294,342.51	100.00	3,189,975.38	28.24	8,104,367.13

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet (Continued)**

7. Other receivables (Continued)

(1) Breakdown (Continued)

2) Other receivables with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Customer 10	761,173.00	761,173.00	100.00	In litigation
Sub-total	761,173.00	761,173.00	100.00	

3) Other receivables with provision for bad debts made as per portfolio

Portfolios	Closing balance		
	Book balance	Provision for bad debts	Percentage of provision (%)
Security deposits receivable portfolio	11,143,478.44	2,159,300.91	19.38
Imprest receivable portfolio	543,164.65	13,819.45	2.54
Others	3,013,514.82	61,154.30	2.03
Sub-total	14,700,157.91	2,234,274.66	15.20

(2) Ageing

Item	Book balance at the end of the period
Within 1 year	8,406,096.21
1 to 2 years	985,752.00
2 to 3 years	2,135,115.31
3 to 4 years	1,357,194.39
4 to 5 years	740,000.00
Over 5 years	1,837,173.00
Total	15,461,330.91

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

7. Other receivables (Continued)

(3) Changes in provision for bad debts

Item	Phase I	Phase II	Phase III	Total
	Expected credit loss in following 12 months	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Opening balance	85,283.97	454,979.45	2,649,711.96	3,189,975.38
Opening balance for the period	-	-	-	-
- Transfer to phase II	-19,137.35	19,137.35		
- Transfer to phase III		-42,500.00	42,500.00	
- Reverse to phase II				
- Reverse to phase I				
Provision for the period	100,117.14	175,796.90	-470,441.76	-194,527.72
Recovery for the period				
Reversal for the period				
Write-off for the period				
Other changes				
Closing balance	166,263.76	607,413.70	2,221,770.20	2,995,447.66

(4) Classification of other receivables by nature

Nature	Closing balance	Closing balance of last year
Security deposits portfolio	11,904,651.44	10,448,743.94
Imprest portfolio	543,164.65	499,631.88
Others	3,013,514.82	345,966.69
Total	15,461,330.91	11,294,342.51

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

7. Other receivables (Continued)

(5) Top 5 entities by the amount of other receivables

Name of entity	Nature	Book balance	Ageing	Percentage of the balance of other receivables (%)	Provision for bad debts
Customer 11	Refund receivable	3,000,000.00	Within 1 year	19.40	60,000.00
Customer 12	Security deposits	999,298.74	Within 1 year	6.46	149,894.81
		986,915.31	2 to 3 years	6.38	89,537.30
Sub-total		1,986,214.05		12.85	239,432.11
Customer 13	Security deposits	41,000.00	Within 1 year	0.26	820.00
		719,000.00	2 to 3 years	4.66	24,650.00
		640,000.00	3 to 4 years	4.14	53,100.00
Sub-total		1,400,000.00		9.05	78,570.00
Customer 10	Security deposits	761,173.00	Over 5 years	4.92	761,173.00
Customer 14	Security deposits	200,000.00	3 to 4 years	1.29	30,000.00
		300,000.00	4 to 5 years	1.94	45,000.00
		100,000.00	Over 5 years	0.65	15,000.00
Sub-total		600,000.00		3.88	90,000.00
Total		7,747,387.05		50.11	1,229,175.11

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet (Continued)**

8. Inventories

(1) Breakdown

Item	Closing balance			Closing balance of last year		
	Book balance	Provisions for impairment	Book value	Book balance	Provisions for impairment	Book value
Raw materials	56,758,574.89	745,591.71	56,012,983.18	57,522,111.78	133,782.18	57,388,329.60
Work in process	91,451,571.91		91,451,571.91	104,571,911.71		104,571,911.71
Finished goods	214,556,253.74	18,871,391.39	195,684,862.35	272,862,586.30	12,416,759.27	260,445,827.03
Delivered goods	3,848,962.95		3,848,962.95	11,761,927.79		11,761,927.79
Materials for consigned processing	7,922,132.64		7,922,132.64	15,794,786.22		15,794,786.22
Total	374,537,496.13	19,616,983.10	354,920,513.03	462,513,323.80	12,550,541.45	449,962,782.35

(2) Provisions for inventory impairment

1) Breakdown

Item	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Provision	Others	Reversal or write-off	Others	
Raw materials	133,782.18	1,005,753.41		393,943.88		745,591.71
Finished goods	12,416,759.27	13,389,901.57		6,935,269.45		18,871,391.39
Total	12,550,541.45	14,395,654.98		7,329,213.33		19,616,983.10

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)8. *Inventories* (Continued)

(2) Provisions for inventory impairment (Continued)

- 2) Specific basis for determining net realizable value, the reasons for reversal or write-off of provisions for inventory impairment during the period

Item	Specific basis for determining net realisable value	Reason for reversal of provisions for inventory impairment	Reason for write-off of provisions for inventory impairment
Raw materials	The net realisable value of relevant products is determined based on estimated selling price less estimated costs to be incurred for completion, estimated sales expenses and relevant taxes and surcharges	Increase in the net realisable value of inventories with provisions for inventory impairment for prior periods	During the period, inventories with provisions for impairment were consumed
Finished goods	The net realisable value of relevant products is determined based on estimated selling price less estimated sales expenses and relevant taxes and surcharges	Increase in the net realisable value of inventories with provisions for inventory impairment for prior periods	During the period, inventories with provisions for impairment were sold

- 3) Explanation of provision for inventory impairment during the period
 Considering economic production, the production volume of special model inventories applicable to special road sections will be slightly higher than sales orders. Besides, the Company has not specifically sold these special customized products afterwards, resulting in a long-term backlog of special customized products. Hence, provisions are mainly made for the impairment of such products.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet (Continued)**

9. Contract assets

(1) Breakdown

Item	Closing balance			Closing Balance of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Retention monies due within 1 year	33,038,313.28	4,955,746.99	28,082,566.29	69,833,885.54	10,475,082.84	59,358,802.70
Total	33,038,313.28	4,955,746.99	28,082,566.29	69,833,885.54	10,475,082.84	59,358,802.70

(2) Provision for impairment of contract assets

1) Breakdown

Item	Opening balance	Increase during the period		Decrease during the period			Closing balance
		Provision	Others (Note 1)	Reversal	Write-off	Others (Note 2)	
Provision for impairment made individually							
Provision for impairment made as per portfolio	10,475,082.84	-6,481,592.23	5,769,991.15			4,807,734.77	4,955,746.99
Sub-total	10,475,082.84	-6,481,592.23	5,769,991.15			4,807,734.77	4,955,746.99

Note 1: Other increases for the period represented the transfer of the impairment provision for retention monies due within one year from impairment provision for other non-current assets to that for contract assets

Note 2: Other decreases for the period represented the transfer of the impairment provision for matured retention monies from impairment provision for contract assets to bad debt provision for accounts receivable

2) Contract assets with provision for impairment made as per portfolio

Item	Closing balance		
	Book balance	Provision for impairment	Percentage of provision (%)
Retention monies portfolio	33,038,313.28	4,955,746.99	15.00
Sub-total	33,038,313.28	4,955,746.99	15.00

Notes to the Financial Statements (Continued)
2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

10. *Other current assets*

Item	Closing balance		Closing balance of last year			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Input value added tax retained for deduction	74.26		74.26	3,108,830.72		3,108,830.72
Input value added tax to be certified	3,956,421.09		3,956,421.09	6,800,166.71		6,800,166.71
Prepaid taxes	2,476,707.04		2,476,707.04	1,158,604.82		1,158,604.82
Total	6,433,202.39		6,433,202.39	11,067,602.25		11,067,602.25

11. *Long-term equity investments*

(1) *Breakdown by category*

Item	Closing balance		Closing balance of last year			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in associates	241,896,914.68		241,896,914.68	206,271,660.90		206,271,660.90
Total	241,896,914.68		241,896,914.68	206,271,660.90		206,271,660.90

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

11. Long-term equity investments (Continued)

(2) Breakdown

Investee	Opening balance	Increase or decrease during the period			Investment profit or loss recognised using equity method	Adjustment to other comprehensive income
		Additional investments	Decrease in investments			
Associate						
Hebei Tieke Yichen New Material Technology Co., Ltd.						
	206,271,660.90				32,661,927.08	
Total	206,271,660.90				32,661,927.08	

Investee	Increase or decrease during the period				Closing balance	Closing balance of provision for impairment
	Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others		
Associate						
Hebei Tieke Yichen New Material Technology Co., Ltd.						
		3,907,750.00		6,871,076.70	241,896,914.68	
Total		3,907,750.00		6,871,076.70	241,896,914.68	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)12. *Other equity instruments investment*(1) Breakdown

Item	Closing balance	Closing balance of last year	Dividend income for the period	Accumulated gains and losses transferred from other comprehensive income to retained earnings for the period	
				Amount	Reason
Hebei Electric Power Trading Center Co., Ltd.* (河北電力交易中心有限公司)	8,197,392.29	8,320,900.00			
Total	8,197,392.29	8,320,900.00			

(2) Reasons for designation as an equity instrument investment at fair value through other comprehensive income

The Company holds 4.65% of equity interest in Hebei Electric Power Trading Center Co., Ltd. and has no control, joint control and significant influence on Hebei Electric Power Trading Center Co., Ltd. At the same time, based on the Company's investment strategy, it is designated as an equity instrument investment at fair value through other comprehensive income as the investment is planned to be held for a long time.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

13. Fixed assets

(1) Breakdown

Item	Buildings and structures	Machinery and equipment	Transportation vehicles	Electronic equipment	Other equipment	Total
Original book value						
Opening balance	421,337,940.25	237,854,833.75	17,737,200.29	8,638,610.97	2,871,459.35	688,440,044.61
Increase during the period	145,287,952.77	47,248,013.63	33,845.54	10,131,681.86	7,812.62	202,709,306.42
1) Purchase	60,000.00	5,444,648.37	33,845.54	176,207.61	7,812.62	5,722,514.14
2) Transferred from construction in progress	145,227,952.77	41,803,365.26		9,955,474.25		196,986,792.28
Decrease during the period		753,119.65		29,059.83		782,179.48
1) Disposal or retirement		337,735.04				337,735.04
2) Other decreases		415,384.61		29,059.83		444,444.44
Closing balance	566,625,893.02	284,349,727.73	17,771,045.83	18,741,233.00	2,879,271.97	890,367,171.55
Accumulated depreciation						
Opening balance	42,843,801.16	139,937,324.72	15,229,948.54	7,488,279.81	2,265,089.42	207,764,443.65
Increase during the period	20,498,389.56	16,158,090.84	727,016.13	434,400.70	163,108.02	37,981,005.25
1) Provision	20,498,389.56	16,158,090.84	727,016.13	434,400.70	163,108.02	37,981,005.25
Decrease during the period		698,396.89		27,606.84		726,003.73
1) Disposal or retirement		303,781.51				303,781.51
2) Other decreases		394,615.38		27,606.84		422,222.22
Closing balance	63,342,190.72	155,397,018.67	15,956,964.67	7,895,073.67	2,428,197.44	245,019,445.17
Provision for impairment						
Opening balance						
Increase during the period						
1) Provision						
Decrease during the period						
1) Disposal or retirement						
Closing balance						
Book value						
Closing book value	503,283,702.30	128,952,709.06	1,814,081.16	10,846,159.33	451,074.53	645,347,726.38
Opening book value	378,494,139.09	97,917,509.03	2,507,251.75	1,150,331.16	606,369.93	480,675,600.96

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

13. Fixed assets (Continued)

(2) Information on fixed assets without certificate of title

Project	Book value	Reason for not obtaining certificate of title
Office buildings and warehouses for casting	392,148.15	Area verification
Office buildings for passenger railway line	2,613,371.85	Area verification
Power-coating workshop	2,144,851.40	Under process
Warehouse for equipment and finished goods	3,477,204.88	Under process
Workshop 3 for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	30,454,982.63	Shall be processed together after the overall completion
Workshop 4 for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	30,623,326.84	of the R&D and manufacturing project of high-speed railway
Comprehensive experimental building for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	2,613,371.85	heavy-haul fastening accessory systems
Office building for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	134,762,796.67	
Workshop 1 for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	29,375,563.09	
Workshop 2 for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	31,862,192.70	
Workshop 5 for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	30,723,193.16	
Workshops and office buildings for sleeper	4,036,572.43	Under process
Sub-total	303,079,575.65	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)14. *Project under construction*(1) Breakdown

Item	Closing balance		Closing balance of last year			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	65,115,132.25		65,115,132.25	193,957,197.38		193,957,197.38
Andafa AX lean manufacturing management system	1,026,663.44		1,026,663.44	1,026,663.44		1,026,663.44
Wire production line	36,283,185.84		36,283,185.84	5,415,929.20		5,415,929.20
Automatic welding wire layer winding machine				5,158,812.02		5,158,812.02
Flux cored wire south workshop upgrade	15,184,227.70		15,184,227.70	18,156,861.15		18,156,861.15
Solid wire resource utilisation and treatment project	5,398,230.09		5,398,230.09	3,557,522.12		3,557,522.12
Railway locomotive project	71,549,961.93		71,549,961.93	14,437,100.17		14,437,100.17
Sporadic projects	5,149,122.38		5,149,122.38	10,269,958.97		10,269,958.97
Total	199,706,523.63		199,706,523.63	251,980,044.45		251,980,044.45

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

14. Project under construction (Continued)

(2) Changes in major projects under construction during the period

Project name	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Other decrease	Closing balance
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	1,000,000,000.00	193,957,197.38	38,316,226.65	166,983,070.54	175,221.24	65,115,132.25
Andafa AX lean manufacturing management system	1,800,000.00	1,026,663.44				1,026,663.44
Wire production line	41,000,000.00	5,415,929.20	30,867,256.64			36,283,185.84
Automatic welding wire layer winding machine	6,630,000.00	5,158,812.02		5,158,812.02		
Flux cored wire south workshop upgrade	36,550,000.00	18,156,861.15	14,098,263.23	17,070,896.68		15,184,227.70
Solid wire resource utilisation and treatment project	6,100,000.00	3,557,522.12	1,840,707.97			5,398,230.09
Railway locomotive project	500,000,000.00	14,437,100.17	57,148,980.69	36,118.93		71,549,961.93
Sporadic projects		10,269,958.97	2,617,057.52	7,737,894.11		5,149,122.38
Sub-total		251,980,044.45	144,888,492.70	196,986,792.28	175,221.24	199,706,523.63

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

14. Project under construction (Continued)

(2) Changes in major projects under construction during the period (Continued)

Project name	Percentage of accumulated project input to budget (%)	Progress of project (%)	Accumulated amounts of capitalised interest	Capitalised interest amount for the current period	Ratio of capitalised interest for the current period (%)	Source of funds
R&D and manufacturing project of high-speed railway heavy-haul fastening accessory system	71.00	71.00				Raised funds and own funds
Andafa AX lean manufacturing management system	57.04	57.00				Own funds
Wire production line	79.00	60.00				Own funds
Automatic welding wire layer winding machine	100.00	100.00				Own funds
Flux cored wire south workshop upgrade	99.00	95.00				Own funds
Solid wire resource utilisation and treatment project	87.00	85.00				Own funds
Railway locomotive project	26.00	24.00				Own funds
Sporadic projects						Own funds
Sub-total						

Notes to the Financial Statements (Continued)
2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

15. *Right-of-use assets*

Item	Buildings and structures	Total
Original book value		
Opening balance	3,331,851.73	3,331,851.73
Increase during the period		
Decrease during the period		
Closing balance	3,331,851.73	3,331,851.73
Accumulated depreciation		
Opening balance	2,132,953.85	2,132,953.85
Increase during the period	599,448.94	599,448.94
1) Provision	599,448.94	599,448.94
Decrease during the period		
Closing balance	2,732,402.79	2,732,402.79
Book value		
Closing book value	599,448.94	599,448.94
Opening book value	1,198,897.88	1,198,897.88

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

16. Intangible assets

(1) Breakdown

Item	Land use rights	Software	Total
Original book value			
Opening balance	157,288,343.51	2,179,609.12	159,467,952.63
Increase during the period		297,574.72	297,574.72
1) Purchase		297,574.72	297,574.72
Decrease during the period			
1) Disposal			
Closing balance	157,288,343.51	2,477,183.84	159,765,527.35
Accumulated amortisation			
Opening balance	13,739,131.01	1,177,229.89	14,916,360.90
Increase during the period	3,155,301.20	321,143.98	3,476,445.18
1) Provision	3,155,301.20	321,143.98	3,476,445.18
Decrease during the period			
1) Disposal			
Closing balance	16,894,432.21	1,498,373.87	18,392,806.08
Provision for impairment			
Opening balance			
Increase during the period			
1) Provision			
Decrease during the period			
1) Disposal			
Closing balance			
Book value			
Closing book value	140,393,911.30	978,809.97	141,372,721.27
Opening book value	143,549,212.50	1,002,379.23	144,551,591.73

(2) Analysis of book value of the land use rights

Item	Closing balance	Closing balance of last year
Outside Hong Kong		
Interim lease	140,393,911.30	143,549,212.50
Sub-total	140,393,911.30	143,549,212.50

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

17. Goodwill

(1) Breakdown

Name of investee or event generating goodwill	Closing balance			Closing balance of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Xingtai Juneng	114,280,454.01	35,207,801.11	79,072,652.90	114,280,454.01	11,540,960.76	102,739,493.25
Total	114,280,454.01	35,207,801.11	79,072,652.90	114,280,454.01	11,540,960.76	102,739,493.25

(2) Original book value of goodwill

Name of investee or event generating goodwill	Opening balance	Arising from combination of enterprises during the period	Decrease during the period		Closing balance
			Disposal	Others	
Xingtai Juneng	114,280,454.01				114,280,454.01
Total	114,280,454.01				114,280,454.01

(3) Provision for goodwill impairment

Name of investee or event generating goodwill	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Provision	Others	Disposal	Others	
Xingtai Juneng	11,540,960.76	23,666,840.35				35,207,801.11
Total	11,540,960.76	23,666,840.35				35,207,801.11

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

17. Goodwill (Continued)

(4) Goodwill impairment test process

Asset group of Xingtai Juneng

- 1) Information about the asset group or asset group portfolio that goodwill belongs to

Composition of asset group or asset group portfolio	Long-term assets of Xingtai Juneng
Book value of asset group or asset group portfolio	29,401,253.82
Book value of goodwill allocated to the asset group or asset group portfolio and allocation method	Book value of complete goodwill: 117,416,563.72
	Allocation method: All included in the asset group
Book value of asset group or asset group portfolio including goodwill	146,817,817.54
Whether the asset group or asset group portfolio is consistent with the asset group or asset group portfolio determined on the purchase date or the goodwill impairment test date of previous years	Yes

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)17. *Goodwill* (Continued)(4) Goodwill impairment test process (Continued)

Asset group of Xingtai Juneng (Continued)

2) The process, method and conclusion of goodwill impairment test

The recoverable amount of the asset group or asset group portfolio including goodwill is determined according to the net value of fair value less disposal expenses. The expected cash flows are based on the detailed forecast for five-year cash flow approved by the Company. The cash flows after the detailed forecast period are inferred from the growth rate of 0% (2021: 0%), which is approximate to the overall long-term average growth rate of the manufacturing industry. The discount rate used in the cash flow discount is 10.07% after tax.

Other key data used in the impairment test include estimated sales price, sales volume, production costs and other related expenses of products. The Company determines the above key data based on historical experience and market development forecast. The discount rate adopted by the Company is the pre-tax interest rate reflecting the time value of the current market currency and the specific risk of the relevant asset group.

According to the Asset Assessment Report on the Recoverable Amount of Goodwill-related Asset Group in connection with the Impairment Test to be Conducted by Hebei Yichen Industrial Group Corporation Limited as to the Goodwill from the Acquisition of Equity Interests in Xingtai Juneng Railway Electrical Equipment Co., Ltd. (Jinzheng Ping Bao Zi [2023] No. 0053) (《河北翼辰實業集團股份有限公司擬對收購邢臺炬能鐵路電氣器材有限公司股權形成的商譽進行減值測試所涉及的商譽相關資產組可收回金額資產評估報告》(金證評報字[2023]第0053號)) issued by Jinzheng (Shanghai) Asset Valuation & Consulting Co., Ltd. (金證(上海)資產評估有限公司) engaged by the Company, the recoverable amount and book value of the asset group or asset group portfolio containing goodwill are RMB119,770,000 and RMB146,817,800, respectively. In the current period, the impairment loss of goodwill of RMB27,047,800 should be recognised, of which the impairment loss of goodwill of RMB23,666,800 attributed to the Company should be recognised.



Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

18. Deferred income tax assets and deferred income tax liabilities

(1) Non-offsetting deferred income tax assets

Item	Closing balance		Closing balance of last year	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	237,719,430.68	35,657,914.60	183,937,632.34	27,590,644.86
Provisions	45,594,804.02	6,839,220.60	38,158,848.69	5,723,827.30
Unrealized profits from internal transactions	3,751,992.38	562,798.86	5,105,530.45	765,829.57
Accounts payable over 3 years	3,010,621.46	451,593.22	1,812,372.70	271,855.90
Total	290,076,848.54	43,511,527.28	229,014,384.18	34,352,157.63

(2) Non-offsetting deferred income tax liabilities

Item	Closing balance		Closing balance of last year	
	Taxable temporary differences	Deferred income tax liabilities	Taxable temporary differences	Deferred income tax liabilities
Appreciation in asset valuation of business combination not under common control	2,095,395.06	314,309.27	2,256,002.40	338,400.37
Accelerated depreciation of fixed assets	66,987,540.21	10,048,131.03	14,786,949.57	2,218,042.43
Changes in fair value	146,902,266.75	22,035,340.01	51,003,493.21	7,650,523.98
Total	215,985,202.02	32,397,780.31	68,046,445.18	10,206,966.78

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)18. *Deferred income tax assets and deferred income tax liabilities* (Continued)(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Item	Closing balance		Closing balance of last year	
	Offset amount of deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting	Offset amount of deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting
Deferred income tax assets	32,083,471.04	11,428,056.24	9,812,630.28	24,539,527.35
Deferred income tax liabilities	32,083,471.04	314,309.27	9,812,630.28	394,336.50

(4) Breakdown of unrecognised deferred income tax assets

Item	Closing balance	Closing balance of last year
Deductible temporary differences	75,922.39	79,902.67
Deductible losses	307,531.48	313,743.80
Sub-total	383,453.87	393,646.47

(5) Deductible losses for which deferred income tax assets are not recognised will expire in the following years

Year	Closing balance	Closing balance of last year	Note
2023	136,356.50	143,358.46	
2026	170,385.34	170,385.34	
2027	758.14		
Indefinite	31.50		
Sub-total	307,531.48	313,743.80	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

19. Other non-current assets

(1) Breakdown

Item	Closing balance			Closing balance of last year		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Prepayment for the purchase of long-term assets	1,972,241.31		1,972,241.31	5,230,023.51		5,230,023.51
Contract assets	93,779,322.27	14,066,898.35	79,712,423.92	83,396,686.48	12,509,502.96	70,887,183.52
Total	95,751,563.58	14,066,898.35	81,684,665.23	88,626,709.99	12,509,502.96	76,117,207.03

(2) Contract assets

1) Breakdown

Item	Closing balance			Closing balance of last year		
	Book balance	Impairment provision	Book value	Book balance	Impairment provision	Book value
Retention monies due after one year	93,779,322.27	14,066,898.35	79,712,423.92	83,396,686.48	12,509,502.96	70,887,183.52
Sub-total	93,779,322.27	14,066,898.35	79,712,423.92	83,396,686.48	12,509,502.96	70,887,183.52

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

19. Other non-current assets (Continued)

(2) Contract assets (Continued)

2) Provision for impairment of contract assets

① Breakdown

Item	Opening balance	Increase during the period		Decrease during the period			Closing balance
		Provision	Others	Reversal	Write-off	Others (Note)	
Provision for impairment made individually							
Provision for impairment made as per portfolio	12,509,502.96	7,327,386.54				5,769,991.15	14,066,898.35
Sub-total	12,509,502.96	7,327,386.54				5,769,991.15	14,066,898.35

Note: Other decreases for the period represented the transfer of the impairment provision for retention monies due within one year from impairment provision for other non-current assets to that for contract assets

② Contract assets with impairment provisions made as per portfolio

Item	Closing balance		
	Book balance	Impairment provision	Percentage of provision (%)
Retention monies portfolio	93,779,322.27	14,066,898.35	15.00
Sub-total	93,779,322.27	14,066,898.35	15.00

20. Short-term borrowings

Item	Closing balance	Closing balance of last year
Secured and guaranteed borrowings	5,000,000.00	5,000,000.00
Secured borrowings	20,000,000.00	
Guaranteed borrowings		18,714,200.00
Credit borrowings	155,000,000.00	35,000,000.00
Pledged borrowings	2,639,573.25	
Total	182,639,573.25	58,714,200.00

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

21. Bills payable

Item	Closing balance	Closing balance of last year
Bank acceptance notes	73,801,170.00	86,937,787.00
Total	73,801,170.00	86,937,787.00

22. Accounts payable

(1) Breakdown

Item	Closing balance	Closing balance of last year
Payables for materials	296,364,959.98	300,696,162.83
Payables for technology transfer	45,594,804.02	38,158,848.69
Payables for transportation	20,723,140.34	18,893,275.07
Payables for electricity and others	11,750,891.51	21,052,764.06
Total	374,433,795.85	378,801,050.65

(2) Ageing analysis

Ageing	Closing balance
Within 1 year	312,748,088.21
Over 1 year	61,685,707.64
Sub-total	374,433,795.85

(3) Material accounts payable ageing over 1 year

Item	Closing balance	Reasons of unsettlement or carrying-forward
Supplier 6	32,428,848.69	Not qualified for payment
Sub-total	32,428,848.69	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)23. *Contract liabilities*

Item	Closing balance	Closing balance of last year
Receipts in advance	8,164,349.97	7,664,801.58
Total	8,164,349.97	7,664,801.58

24. *Payroll payable*(1) *Breakdown*

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	8,809,790.37	99,333,591.45	101,964,798.71	6,178,583.11
Post-employment benefits – established withdrawal and deposit plan		9,721,743.09	9,721,743.09	
Total	8,809,790.37	109,055,334.54	111,686,541.80	6,178,583.11

(2) *Breakdown of short-term remuneration*

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonus, allowances and subsidies	8,668,621.89	82,868,632.36	85,456,255.58	6,080,998.67
Staff welfare		2,633,667.80	2,633,667.80	
Social insurance		8,767,235.36	8,767,235.36	
Including: Medical insurance		7,336,910.26	7,336,910.26	
Work injury insurance		561,150.34	561,150.34	
Maternity insurance		869,174.76	869,174.76	
Housing funds		3,597,007.00	3,597,007.00	
Labour union funds and employee education funds	141,168.48	1,467,048.93	1,510,632.97	97,584.44
Sub-total	8,809,790.37	99,333,591.45	101,964,798.71	6,178,583.11

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

24. Payroll payable (Continued)

(3) Breakdown of established withdrawal and deposit plan

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance		9,309,985.31	9,309,985.31	
Unemployment insurance premium		411,757.78	411,757.78	
Sub-total		9,721,743.09	9,721,743.09	

According to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) and the relevant laws and regulations, the Company and its subsidiaries shall contribute to basic pension insurance for their employees. Pension will be paid by authorities of social insurances to employees in accordance with the law when such employees reach the retirement age stipulated by the nation or leave the workforce due to other reasons. The Company and its subsidiaries will then be no longer responsible for providing further retirement benefits to the employees.

25. Taxes payable

Item	Closing balance	Closing balance of last year
Value added tax	7,618,180.35	2,394,451.63
Corporate income tax	2,509,076.10	15,252,314.97
Withholding and payment of individual income tax	47,466.56	68,321.26
Urban maintenance and construction tax	789,264.43	124,150.39
Education surcharge	363,691.99	72,249.55
Local education surcharge	242,564.29	48,166.37
Stamp duty	93,834.87	139,791.20
Real estate tax	327,253.42	243,854.38
Total	11,991,332.01	18,343,299.75

Notes to the Financial Statements (*Continued*)
2022**5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (*Continued*)**(I) Notes to the Consolidated Balance Sheet** (*Continued*)26. *Other payables*

Item	Closing balance	Closing balance of last year
Payments for engineering equipment	34,446,954.19	34,666,181.89
Payable provisional collection	820,214.60	10,820,214.60
Others	3,112,227.50	3,439,083.76
Total	38,379,396.29	48,925,480.25

27. *Non-current liabilities due within one year*

Item	Closing balance	Closing balance of last year
Long-term borrowings due within one year	217,500,000.00	
Long-term payables due within one year		24,672,035.01
Lease liabilities due within one year	627,472.25	599,018.86
Total	218,127,472.25	25,271,053.87

28. *Other current liabilities*

Item	Closing balance	Closing balance of last year
VAT output to be recognised	5,468,153.98	2,166,567.92
Total	5,468,153.98	2,166,567.92

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

29. Long-term borrowings

(1) Breakdown

Item	Closing balance	Closing balance of last year
Secured borrowings	188,000,000.00	70,000,000.00
Credit borrowings	9,500,000.00	149,500,000.00
Total	197,500,000.00	219,500,000.00

(2) Analysis of long-term borrowings by maturity date

Item	Closing balance	Closing balance of last year
Current or within 1 year	217,500,000.00	
1-2 years	197,500,000.00	219,500,000.00
Sub-total	415,000,000.00	219,500,000.00
Including: Long-term borrowings due within 1 year	217,500,000.00	
Long-term borrowings due after 1 year	197,500,000.00	219,500,000.00

30. Lease liabilities

Item	Closing balance	Closing balance of last year
Building lease payables		627,472.24
Total		627,472.24

Notes to the Financial Statements (Continued)
2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

31. Provision for liabilities

(1) Breakdown

Item	Closing balance	Closing balance of last year	Reasons
Pending litigation	451,731.44		Expected compensation expenses for pending litigation
Total	451,731.44		

(2) Other description

The Company has made a provision for expected compensation expenses of RMB451,731.44 for the pending litigation during the year, as detailed in note XI(II) to these financial statements.

32. Deferred income

(1) Breakdown

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Reasons
Government grants	4,943,666.67		232,600.00	4,711,066.67	Asset-related government grants
Total	4,943,666.67		232,600.00	4,711,066.67	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

32. Deferred income (Continued)

(2) Breakdown of government grants

Item	Opening balance	Increase during the period	Amount included in profit or loss for the period (Note)	Closing balance	Related to assets/ Related to income
Grants for land acquisition	4,943,666.67		232,600.00	4,711,066.67	Related to assets
Sub-total	4,943,666.67		232,600.00	4,711,066.67	

Note: Details of the government grants included in the profit or loss for the period are set out in the explanation of note V(IV)3 to these financial statements.

33. Share capital

Item	Opening balance	Increase and decrease during the period ("-" for decrease)				Sub-total	Closing balance
		Issuance of new shares	Bonus shares	Transfer from reserves	Others		
Non-tradable shares	336,690,000.00						336,690,000.00
Shares held by domestic legal persons	14,350,000.00						14,350,000.00
Shares held by domestic natural persons	322,340,000.00						322,340,000.00
Tradable shares without selling restrictions	112,230,000.00						112,230,000.00
H shares	112,230,000.00						112,230,000.00
Total	448,920,000.00						448,920,000.00

34. Capital reserve

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	813,227,049.41			813,227,049.41
Total	813,227,049.41			813,227,049.41

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(I) Notes to the Consolidated Balance Sheet (Continued)

35. Other comprehensive income

Item	Amounts for the period							Closing balance
	Opening balance	Other comprehensive income after tax, net					Less: Amount included in other comprehensive income in prior period and transferred to retained earnings during the period (attributable to the parent after tax)	
		Amount for the current period before income tax	Less: Amount included in other comprehensive income in prior period and transferred to profit or loss during the period	Less: Income tax expenses	Amount attributable to the parent after tax	Amount attributable to minority interests after tax		
Other comprehensive income that cannot be reclassified to profit or loss		-123,507.71			-123,507.71		-123,507.71	
Including: Changes in fair value of other equity instruments investment		-123,507.71			-123,507.71		-123,507.71	
Total other comprehensive income		-123,507.71			-123,507.71		-123,507.71	

36. Surplus reserve

(1) Breakdown

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	137,534,737.84	14,262,260.64		151,796,998.48
Total	137,534,737.84	14,262,260.64		151,796,998.48

(2) Other description

The increase in surplus reserve during the period was due to the statutory surplus reserve calculated at 10% of the net profit realised by the parent company.

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

37. Undistributed profits

(1) Breakdown

Item	Amounts for the period	Amounts for the same period of last year
Undistributed profits at the beginning of the period	950,041,243.47	726,328,119.90
Add: Net profits attributable to owners of parent for the period	161,032,059.26	246,087,593.23
Less: Appropriation to statutory surplus reserve	14,262,260.64	22,374,469.66
Ordinary shares dividends payable	49,650,552.00	
Undistributed profits at the end of the period	1,047,160,490.09	950,041,243.47

(2) Other description

According to the 2021 profit distribution plan considered and approved by the Board of the Company on 29 March 2022 and at the general meeting on 31 May 2022, the Company distributed a cash dividend of RMB0.0553 (tax inclusive) per Share, which amounted to total dividend distribution of RMB49,650,552.00. The said dividends have been paid.

Notes to the Financial Statements (Continued)
2022**5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(II) Notes to the Consolidated Income Statement**

1. Operating revenue/Operating cost

(1) Breakdown

Item	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	1,250,235,518.73	951,091,831.50	1,339,051,555.47	929,029,865.99
Other operating revenue	8,030,679.22	4,664,400.87	24,593,675.92	18,606,355.89
Total	1,258,266,197.95	955,756,232.37	1,363,645,231.39	947,636,221.88
Including: Revenue from contracts with customers	1,258,266,197.95	955,756,232.37	1,363,645,231.39	947,636,221.88

(2) Breakdown of revenue

1) Breakdown of revenue by types of goods or services

Item	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Rail fastening system	870,451,899.28	609,406,540.67	1,006,705,369.00	643,124,070.40
Welding material	311,209,866.64	293,744,212.39	241,893,334.16	229,258,400.36
Railway sleepers	68,573,752.81	47,941,078.44	90,452,852.31	56,647,395.23
Others	8,030,679.22	4,664,400.87	24,593,675.92	18,606,355.89
Sub-total	1,258,266,197.95	955,756,232.37	1,363,645,231.39	947,636,221.88

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to the Consolidated Income Statement (Continued)**

1. Operating revenue/Operating cost (Continued)

(2) Breakdown of revenue (Continued)

2) Breakdown of revenue by region of operation

Item	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Domestic	1,222,477,476.08	925,666,857.57	1,328,122,271.65	915,284,405.93
Overseas	35,788,721.87	30,089,374.80	35,522,959.74	32,351,815.95
Sub-total	1,258,266,197.95	955,756,232.37	1,363,645,231.39	947,636,221.88

3) Breakdown of revenue by time of transfer of goods or services

Item	Amounts for the period	Amounts for the same period of last year
Revenue recognised at a point of time	1,258,266,197.95	1,363,645,231.39
Sub-total	1,258,266,197.95	1,363,645,231.39

(3) The revenue recognised during the period and included in the book value of contract liabilities at the beginning of the period was RMB6,596,428.17.

(4) Sales revenue and cost of trial operation presented in operating revenue and operating cost

Item	Amounts for the period	Amounts for the same period of last year
Sales revenue of trial operation	16,826,595.55	
Sales cost of trial operation	19,530,010.74	

Notes to the Financial Statements (*Continued*)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (*Continued*)**(II) Notes to the Consolidated Income Statement** (*Continued*)2. *Taxes and surcharges*

Item	Amounts for the period	Amounts for the same period of last year
Urban maintenance and construction tax	2,436,198.82	2,570,988.84
Education surcharge	1,078,372.32	1,162,922.93
Local education surcharge	718,914.85	775,281.98
Stamp duty	435,638.58	605,448.80
Real estate tax	4,125,922.22	1,420,691.60
Land use tax	3,479,479.64	2,876,113.55
Total	12,274,526.43	9,411,447.70

3. *Sales expenses*

Item	Amounts for the period	Amounts for the same period of last year
Payroll	8,843,708.01	9,380,495.96
Travel expenses	931,906.19	1,143,817.35
Product test & certification costs	2,994,604.71	5,917,496.48
Entertainment charge	2,123,584.36	2,296,586.48
Sample service fees	1,633,165.44	916,446.77
Amortisation of low-value consumables	123,205.35	309,702.86
Others	2,042,855.03	1,294,979.33
Total	18,693,029.09	21,259,525.23

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to the Consolidated Income Statement** (Continued)

4. Management expenses

(1) Breakdown

Item	Amounts for the period	Amounts for the same period of last year
Payroll	29,070,899.26	25,141,069.71
Agency fee	4,326,326.35	16,619,377.98
Technology transfer fee	12,841,615.73	14,946,568.25
Depreciation and amortisation	16,846,102.27	8,574,572.65
Office expenses	7,711,731.20	6,867,049.21
Business entertainment expenses	1,998,104.76	2,170,117.45
Travel expenses	608,789.24	889,703.14
Amortisation of low-value consumables	1,778,185.51	2,279,040.12
Lease payment	336,177.49	361,571.06
Others	4,198,151.99	4,256,276.36
Total	79,716,083.80	82,105,345.93

(2) The management expenses for the year included auditors' remuneration of RMB1,509,400, of which the audit fee for 2022 amounted to RMB1,132,000, and the interim audit fee for 2022 were RMB377,400. The management expenses for 2021 included auditors' remuneration of RMB9,553,200.

Notes to the Financial Statements (*Continued*)
2022**5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (*Continued*)**(II) Notes to the Consolidated Income Statement** (*Continued*)5. *Research and development expenses*

Item	Amounts for the period	Amounts for the same period of last year
Material costs	26,458,653.49	28,126,405.02
Payroll	9,824,962.36	10,187,126.44
Electricity charges	5,147,183.92	4,231,697.39
Depreciation	1,047,938.69	1,858,731.06
Others	399,409.41	232,843.75
Total	42,878,147.87	44,636,803.66

6. *Finance costs*

Item	Amounts for the period	Amounts for the same period of last year
Interest expense	21,118,456.52	15,810,610.94
Less: Interest income	1,993,747.07	2,693,250.32
Exchange gains or losses	-57,911.81	-486,790.92
Bank charges	596,643.91	1,265,315.28
Total	19,663,441.55	13,895,884.98

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to the Consolidated Income Statement** (Continued)7. *Other income*

Item	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Government grants related to assets (Note)	232,600.00	232,600.00	232,600.00
Government grants related to income (Note)	1,337,838.24	415,094.27	1,337,838.24
Refund of handling charges of individual income tax	12,163.65	224,111.49	12,163.65
Total	1,582,601.89	871,805.76	1,582,601.89

Note: Details of the government grants included in other income for the period are set out in the explanation of note 5(IV)3 to these financial statements

8. *Investment gains*

Item	Amounts for the period	Amounts for the same period of last year
Gains from long-term equity investment calculated under equity method	32,661,927.08	31,957,141.08
Losses on discount of financing of receivables		-84,119.02
Investment gains from financial assets held for trading during the holding period	2,003,804.65	2,228,547.30
Investment gains from disposal of financial assets held for trading	6,412,555.14	5,516.51
Procedural fees for subscription of financial assets held for trading	-69,258.23	-36,301.95
Total	41,009,028.64	34,070,783.92

Notes to the Financial Statements (Continued)
2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

9. Gains from changes in fair value

Item	Amounts for the period	Amounts for the same period of last year
Financial assets held for trading	95,898,773.54	21,766,120.58
Total	95,898,773.54	21,766,120.58

10. Loss on credit impairment

Item	Amounts for the period	Amounts for the same period of last year
Loss on bad debts	-45,865,582.10	-3,845,248.17
Total	-45,865,582.10	-3,845,248.17

11. Impairment loss of assets

Item	Amounts for the period	Amounts for the same period of last year
Impairment loss of inventories	-13,068,477.53	-9,458,171.34
Impairment loss of contract assets	-845,794.31	-646,625.05
Impairment loss of goodwill	-23,666,840.35	
Total	-37,581,112.19	-10,104,796.39

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(II) Notes to the Consolidated Income Statement** (Continued)

12. Non-operating incomes

Item	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Confiscated income	25.00	24,662.07	25.00
Other	27,742.93	65,026.34	27,742.93
Total	27,767.93	89,688.41	27,767.93

13. Non-operating expenses

Item	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Loss on work suspension due to the Pandemic		2,312,000.00	
Expected compensation expenses for pending litigation	451,731.44		451,731.44
Donation	150,000.00	758,000.00	150,000.00
Losses on write-off for damage of non-current assets	33,953.53	7,708.56	33,953.53
Overdue payments	245,793.83	11,671.85	245,793.83
Others	4.69	0.17	4.69
Total	881,483.49	3,089,380.58	881,483.49

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

14. Income tax expenses

(1) Breakdown

Item	Amounts for the period	Amounts for the same period of last year
Current income tax expenses	8,284,103.08	35,989,970.18
Deferred income tax expenses	13,031,443.88	15,344.53
Total	21,315,546.96	36,005,314.71

(2) Accounting profit and adjustment process of income tax expenses

Item	Amounts for the period	Amounts for the same period of last year
Total profit	183,474,731.06	284,481,089.04
Income tax expenses calculated by the applicable tax rates of the parent	27,521,209.65	42,672,163.38
Effect of different tax rates applicable to subsidiaries	1,248,079.80	788,875.40
Effect of non-taxable income	-5,234,749.76	-4,828,461.16
Effect of non-deductible costs, expenses and losses	127,045.66	339,593.75
Effect of utilising deductible temporary differences or deductible losses of unrecognised deferred income tax assets in prior periods	-2,745.56	
Effect of deductible temporary differences or deductible losses of unrecognised deferred income tax assets for the current period	194.74	3,366.33
Effect of additional deduction on research and development expense, salaries of disabled employees and fixed assets	-6,126,186.04	-2,970,222.99
Others	3,782,698.47	
Income tax expenses	21,315,546.96	36,005,314.71

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of consolidated statement of cash flows**1. *Other cash received relating to operating activities*

Item	Amounts for the period	Amounts for the same period of last year
Performance bond received	47,521,499.13	40,756,305.08
Bank acceptance notes deposits received	51,080,718.09	15,000,000.00
Government grants received	1,337,838.24	415,094.27
Interest income received	1,878,336.11	1,995,735.32
Security deposits and other current accounts received		17,351,033.50
Others	40,291.58	3,790,221.78
Total	101,858,683.15	79,308,389.95

2. *Other cash payment relating to operating activities*

Item	Amounts for the period	Amounts for the same period of last year
Payment for performance bond	55,874,134.25	17,999,482.66
Payment for bank acceptance notes deposits	41,581,958.91	36,630,372.10
Payment of expenses of the period	29,158,652.98	35,935,592.05
Others	18,233,587.95	3,100,181.22
Total	144,848,334.09	93,665,628.03

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of consolidated statement of cash flows** (Continued)3. *Other cash received relating to financing activities*

Item	Amounts for the period	Amounts for the same period of last year
Withdrawal of pledged time deposits	10,245,000.00	50,000,000.00
Interest income of pledged time deposits received	115,410.96	495,015.00
Total	10,360,410.96	50,495,015.00

4. *Other cash payment relating to financing activities*

Item	Amounts for the period	Amounts for the same period of last year
Payment of leases	700,000.00	700,000.00
Payment of financings from sale-and-leaseback equipment	24,672,035.01	23,308,203.18
Pledged time deposits		40,000,000.00
Total	25,372,035.01	64,008,203.18

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of consolidated statement of cash flows (Continued)

5. Supplemental information on the statement of cash flows

(1) Supplemental information on the statements of cash flows

Supplemental information	Amounts for the period	Amounts for the same period of last year
1) Net profit adjusted to cash flows from operating activities:		
Net profit	162,159,184.10	248,475,774.33
Add: Provision for impairment on assets	83,446,694.29	13,950,044.56
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of productive biological assets	37,981,005.25	24,019,309.36
Depreciation of right-of-use assets	599,448.94	599,448.94
Amortization of intangible assets	3,476,445.18	2,644,723.50
Amortization of long-term deferred expenses		
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)		-22,113.50
Losses on write-off of fixed assets (“-” for gains)	33,953.53	7,708.56
Losses on changes in fair value (“-” for gains)	-95,898,773.54	-21,766,120.58
Finance costs (“-” for gains)	20,901,950.77	14,626,305.02
Investment losses (“-” for gains)	-41,009,028.64	-34,070,783.92
Decrease in deferred income tax assets (“-” for increase)	13,111,471.11	677,072.71
Increase in deferred income tax liabilities (“-” for decrease)	-80,027.23	-661,728.18
Decrease in inventories (“-” for increase)	54,457,069.60	-71,271,623.86
Decrease in operational receivables (“-” for increase)	-334,868,759.72	-157,732,866.09
Increase in operational payables (“-” for decrease)	-25,660,875.07	116,159,676.41
Others		
Net cash flows from operating activities	-121,350,241.43	135,634,827.26
2) Significant investment and financing activities not related to cash receipts and payments:		
Debt converted to capital		
Convertible company bonds due within one year		
Fixed assets under financing lease		
3) Net change in cash and cash equivalents:		
Balance of cash at the end of the period	77,019,860.44	65,940,847.46
Less: Balance of cash at the beginning of the period	65,940,847.46	135,784,688.22
Add: Balance of cash equivalents at the end of the period		
Less: Balance of cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	11,079,012.98	-69,843,840.76

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of consolidated statement of cash flows (Continued)

5. Supplemental information on the statement of cash flows (Continued)

(2) Composition of cash and cash equivalents

Item	Closing balance	Closing balance of last year
1) Cash	77,019,860.44	65,940,847.46
Including: Cash on hand	57,132.09	38,352.37
Bank deposit readily available for payment	76,518,282.04	65,099,845.67
Other monetary fund readily available for payment	444,446.31	802,649.42
Central bank deposit readily available for payment		
Interbank deposit		
Interbank lending		
2) Cash equivalents		
Including: Bond investment due in three months		
3) Closing balance of cash and cash equivalents	77,019,860.44	65,940,847.46
Including: Restricted cash and cash equivalents used by parent or group subsidiaries		

(3) Transferred endorsed commercial bill which does not involve cash receipt and payment

Item	Amounts for the period	Amounts for the last period
Transferred endorsed commercial bill	280,879,023.59	305,912,436.07
Including: Payment for goods	258,521,785.29	286,869,054.18
Payment for purchase of long-term assets such as fixed assets	22,357,238.30	19,043,381.89

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of consolidated statement of cash flows** (Continued)

5. Supplemental information on the statement of cash flows (Continued)

(4) Explanation on supplementary information of the statements of cash flows

Description of monetary funds that are not cash and cash equivalents

Item	Closing balance	Closing balance of last year
Term deposits		10,245,000.00
Judicially frozen funds	2,941,731.44	
Other monetary fund	79,973,767.27	81,117,447.41
Including: Performance bond	53,675,915.15	45,323,280.03
Deposits for bank acceptance notes	25,331,612.92	34,830,372.10
Migrant workers' advance deposits	966,239.20	963,795.28
Sub-total	82,915,498.71	91,362,447.41

(IV) Others

1. Assets with restrictions on ownership or use rights

Item	Book value at the end of the period	Reason for restriction
Monetary capital	82,915,498.71	Security deposits, migrant workers' advance deposits and judicially frozen funds
Notes receivable	61,261,721.84	Notes receivable endorsed but not yet derecognised
Accounts receivable	13,637,735.87	Evidence of indebtedness endorsed and discounted but not yet derecognised
Contract assets	370,490.22	
Other non-current assets	45,928.09	
Fixed assets	299,370,169.94	Pledged security
Construction in progress	8,410,314.83	Pledged security
Intangible assets	81,912,800.23	Pledged security
Total	547,924,659.73	

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Others (Continued)

2. Monetary items in foreign currencies

Item	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary capital			289,093.98
Including: US Dollar	13,614.23	6.9646	94,817.67
HK Dollar	217,481.60	0.8933	194,276.31
Accounts receivable			2,218,494.90
Including: US Dollar	318,538.74	6.9646	2,218,494.90

3. Government grants

(1) Breakdown

1) Government grants relating to assets

Item	Deferred income at the beginning of the period	Addition of grants during the period	Amortization during the period	Deferred income at the end of the period	Reported amortization item during the period	Description
Land acquisition grants	4,943,666.67		232,600.00	4,711,066.67	Other gains	Compensation for land occupancy and construction of Yichen Bridge and Shangdong Road of Gaocheng City Finance Bureau and Gaocheng City Land and Resources Bureau
Sub-total	4,943,666.67		232,600.00	4,711,066.67		

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Others (Continued)

3. Government grants (Continued)

(1) Breakdown (Continued)

- 2) Government grants relating to income and used for compensating the relevant costs or losses incurred by the Company

Item	Amount	Reported items	Description
Grants for high-tech from the Development and Reform Bureau of Neiqiu County	100,000.00	Other gains	“Notice of the Hebei Provincial Department of Finance on Issuing the 2021 Provincial Industrial Transformation and Upgrading (Technical Transformation) Special Fund (First Batch) Budget” (Ji Cai Jian [2021] No. 137)《河北省財政廳關於下達2021年省級工業轉型升級(技改)專項資金(第一批)預算的通知》(冀財建[2021]137號)
Unemployment insurance rebates from the Employment Services Center of Neiqiu County	36,701.57	Other gains	“Notice of the Human Resources and Social Security Bureau of Xingtai City, Finance Bureau of Xingtai City, State Administration of Taxation Xingtai City Taxation Bureau on Forwarding the ‘Notice of Hebei Provincial Department of Human Resources and Social Security, Department of Finance and Taxation Bureau on Matters Concerning Unemployment Insurance, Stabilising Employment, Enhancing Skills and Preventing Unemployment’” (Xing Ren She Fa [2022] No. 89)《邢台市人力資源和社會保障局、邢台市財政局、國家稅務總局邢台市稅務局關於轉發〈河北省人社廳、財政廳、稅務局關於做好失業保險穩崗位提技能防失業工作有關事項的通知〉的通知》(邢人社發[2022]89號)

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Others (Continued)

3. Government grants (Continued)

(1) Breakdown (Continued)

- 2) Government grants relating to income and used for compensating the relevant costs or losses incurred by the Company (Continued)

Item	Amount	Reported items	Description
Grants from the Development and Reform Bureau of Gaocheng District, Shijiazhuang City	40,000.00	Other gains	“Notice by the Office of the Shijiazhuang Municipal People’s Government of Issuing ‘Relevant Implementation Rules for Certain Measures (Trial) on Supporting the Expansion and Enhancement of the Modern Trade and Logistics Industry’” (Shi Zheng Ban Han [2022] No. 16) 《石家莊市人民政府辦公室印發《關於支持現代商貿物流業做大做強的若干措施(試行)相關實施細則》的通知》(石政辦函[2022]16號)
Trademark Awards from the Market Supervision and Administration Bureau of Gaocheng District, Shijiazhuang City	100,000.00	Other gains	“Notice of Shijiazhuang Municipal Finance Bureau on Granting 2022 Trademark Awards in Advance” (Shi Cai Hang [2021] No. 53) 《石家莊財政局關於提前下達2022年度商標獎勵資金的通知》(石財行[2021]53號)
Grants from the Development and Reform Bureau of Gaocheng District, Shijiazhuang City	600,000.00	Other gains	“Notice of Shijiazhuang Municipal Finance Bureau on Issuing 2020-2021 Specific Funds for Facilitating Foreign Trade and Economic Cooperation” (Shi Cai Wai [2022] No. 6) 《石家莊市財政局關於下達2020-2021年度市級促進外經貿發展專項資金的通知》(石財外[2022]6號)

Notes to the Financial Statements (Continued)

2022

5. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(IV) Others (Continued)**

3. Government grants (Continued)

(1) Breakdown (Continued)

- 2) Government grants relating to income and used for compensating the relevant costs or losses incurred by the Company (Continued)

Item	Amount	Reported items	Description
Grants from the Science & Technology and Industry & Information Bureau of Gaocheng District, Shijiazhuang City	230,173.00	Other gains	“Notice on Issuing 2022 Provincial Specific Fund (grants after technology enterprises’ investments in R&D) for Supporting the Innovation and Science Popularisation at the City-and-county Levels” (Shi Cai Jiao [2022] No. 74)《關於下達2022年支持市縣科技創新和科學普及省級專項資金(科技企業研發投入後補助)的通知》(石財教[2022]74號)
Rebates for employment stabilisation from the Social Security Center of Gaocheng District, Shijiazhuang City	230,963.67	Other gains	“Notice on Matters Concerning Unemployment Insurance, Stabilising Employment, Enhancing Skills and Preventing Unemployment” (Ji Ren She Gui [2022] No. 7)《關於做好失業保險穩崗位提技能防失業工作有關事項的通知》(冀人社規[2022]7號)
Sub-total	1,337,838.24		

- (2) Government grants credited to the current profit or loss for the period amounted to RMB1,570,438.24.

Notes to the Financial Statements (Continued)

2022

6. CHANGE IN CONSOLIDATION SCOPE**Changes in the scope of consolidation due to other reasons***Increase in scope of consolidation*

Name of company	Acquisition method	Acquisition date	Investment contribution	Proportion of contribution
	New			
Yichen Hong Kong Trading (翼辰香港貿易)	establishment	2022-05-24	7,213.40	100.00%

7. EQUITY IN OTHER ENTITIES**(I) Equity in significant subsidiaries**

Name of subsidiary	Place of registration	Principal place of business	Type of legal person	Paid-in capital (RMB ten thousands)	Nature of business	Percentage of shareholding (%)		Acquisition method
						Direct	Indirect	
Yichen Railway Engineering Equipment	Shijiazhuang	Shijiazhuang	Limited liability company	12,643.41	Manufacturing	100.00		Establishment
Yichen Welding	Shijiazhuang	Shijiazhuang	Limited liability company	300.00	Commerce	100.00		Establishment
Yichen Corporate Management	Shijiazhuang	Shijiazhuang	Limited liability company	295.00	Manufacturing	100.00		Establishment
Xingtai Juneng	Xingta	Xingta	Limited liability company	5,100.00	Manufacturing	87.50		Business combination not under common contro
Zhongke Yichen New Material	Shijiazhuang	Shijiazhuang	Limited liability company		Technological promotion and application services	100.00		Establishment
Yichen Jinzhao Railway	Shijiazhuang	Shijiazhuang	Limited liability company		Manufacturing		100.00	Establishment
Yichen Hong Kong Trading	Hong Kong	Hong Kong	Private limited company by shares	0.72	Commerce	100.00		Establishment

Notes to the Financial Statements (Continued)

2022

7. EQUITY IN OTHER ENTITIES (Continued)**(II) Interest in associates**

1. Significant joint ventures or associates

(1) General Information

Name of joint venture or associate	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%)		Accounting treatment for investments in joint ventures or associates
				Direct	Indirect	
Hebei Tieke Yichen New Material Technology Co., Ltd (河北鐵科翼辰新材料科技有限公司) ("Tieke Yichen")	Shijiazhuang	Shijiazhuang	Manufacturing of plastic parts and other plastic products. Rail fastening system, waterproofing and drainage systems for transport tunnels, bridge bearing, research and development, production and sales of plastic products of railway locomotive accessories, production, sales and technological research and development, technological service and technological consultancy of railway business products, import and export of goods, product quality inspection service	49.00		Equity method

Notes to the Financial Statements (Continued)

2022

7. EQUITY IN OTHER ENTITIES (Continued)**(II) Interest in associates** (Continued)

2. Key financial information of significant associates

Item	Closing balance/ balance for the period Tieke Yichen (RMB ten thousands)	Closing balance of last year/ balance for the same period of last year Tieke Yichen (RMB ten thousands)
Current assets	42,575.01	45,310.45
Non-current assets	21,850.25	19,322.43
Total assets	64,425.26	64,632.88
Current liabilities	14,907.04	19,666.63
Non-current liabilities	3.39	8.00
Total liabilities	14,910.43	19,674.63
Equity attributable to owners of the parent	49,514.83	44,958.25
Net assets based shareholding percentage	24,262.27	22,029.54
Adjustment for		
Unrealized profit from intra-group transactions	-759.69	-1,402.38
Book value of equity investments in associates	23,502.58	20,627.16
Operating revenue	39,908.18	38,672.49
Net profit	5,354.08	4,414.34
Total comprehensive income	5,354.08	4,414.34
Dividends received from associates during the period	390.78	802.87

Notes to the Financial Statements (Continued)

2022

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

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

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

(I) Credit risk

Credit risk is the risk of financial losses suffered by a party to financial instruments as a result of the default of another party thereto.

1. Credit risk management practices

(1) Credit risk assessment method

The Company assesses whether credit risk on relevant financial instrument has significantly increased since initial recognition as at each balance sheet date. In determining whether credit risk has significantly increased since initial recognition, the Company takes into consideration reasonable and supportable information available without undue cost or effort, including qualitative and quantitative analysis based on historical data, external credit risk rating and forward-looking information. Based on a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics and by comparing the default risk of financial instruments as at a balance sheet date with that risk on the date of initial recognition, the Company determines the change of default risk of financial instruments over expected life.

When one or more of the following quantitative or qualitative criteria are triggered, the Company believes that the credit risk of financial instruments has significantly increased:

- 1) The quantitative criteria mainly represents an increase of the default probability of the remaining life on the balance sheet date by more than a certain percentage compared with that at the initial recognition;
- 2) The qualitative criteria mainly represents material and adverse changes of the debtor in the operating or financial situation, existing or expected changes in the technical, market, economic or legal environment, which will have a material and adverse impact on the debtor's ability of repayment to the Company.

Notes to the Financial Statements (*Continued*)

2022

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (*Continued*)**(I) Credit risk** (*Continued*)1. *Credit risk management practices* (*Continued*)(2) Definition of defaulted asset and credit-impaired asset

When a financial instrument meets one or more of the following conditions, the financial asset will be defined as having defaulted by the Company, whose criteria is consistent with the definition of credit-impaired asset:

- 1) The debtor has significant financial difficulties;
- 2) The debtor breaches the clauses binding on itself in the contract;
- 3) The debtor probably enters bankruptcy or other financial reorganisation;
- 4) The creditor, for economic or contractual reasons related to the debtor's financial difficulties, grants to the debtor concessions that the creditor would not otherwise grant.

2. *Measurement of expected credit loss*

The key parameters for measurement of expected credit loss include probability of default, loss given default and exposure at default. The Company considers the quantitative analysis on historical statistical data (such as counterparty rating, method of security and types of collateral, method of repayment, etc.) and forward-looking information, and establishes the patterns of probability of default, loss given default and exposure at default.

3. Particulars of the reconciliation of opening and closing balance of provision for losses on financial instruments are set out in the explanation of note 5(I)3, 5(I)4, 5(I)7, 5(I)9 and 5(I)19 to these financial statements.



Notes to the Financial Statements (Continued)

2022

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(I) Credit risk (Continued)

4. Credit risk exposure and concentration of credit risk

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

(1) Monetary capital

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

(2) Receivables

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

As the Company's risks of accounts receivable fall into several business partners and customers, as of 31 December 2022, 44.31% (31 December 2021: 35.20%) of the Company's accounts receivable was due from the five largest customers in terms of balances. The Company has no significant concentration of credit risk.

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

(II) Liquidity risk

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

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

Notes to the Financial Statements (Continued)

2022

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)**(II) Liquidity risk** (Continued)

Classification of financial liabilities based on the remaining maturity

Item	Book value	Closing balance			
		Undiscounted contractual amount	Within 1 year	1 to 3 years	Over 3 years
Bank borrowings	597,639,573.25	621,505,882.86	420,116,528.06	201,389,354.80	
Bills payable	73,801,170.00	73,801,170.00	73,801,170.00		
Accounts payable	374,433,795.85	374,433,795.85	374,433,795.85		
Other payables	38,379,396.29	38,379,396.29	38,379,396.29		
Long-term payables and long-term payables due within one year					
Lease liabilities and lease liabilities due within one year	627,472.25	642,201.83	642,201.83		
Sub-total	1,084,881,407.64	1,108,762,446.83	907,373,092.03	201,389,354.80	

Item	Book value	Closing balance of last year			
		Undiscounted contractual amount	Within 1 year	1 to 3 years	Over 3 years
Bank borrowings	278,214,200.00	297,735,134.16	69,841,125.96	227,894,008.20	
Bills payable	86,937,787.00	86,937,787.00	86,937,787.00		
Accounts payable	378,801,050.65	378,801,050.65	378,801,050.65		
Other payables	48,925,480.25	48,925,480.25	48,925,480.25		
Long-term payables and long-term payables due within one year	24,672,035.01	25,440,401.58	25,440,401.58		
Lease liabilities and lease liabilities due within one year	1,226,491.10	1,284,403.67	642,201.84	642,201.83	
Sub-total	818,777,044.01	839,124,257.31	610,588,047.28	228,536,210.03	

Notes to the Financial Statements (Continued)

2022

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(III) Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk mainly includes interest rate risk and foreign currency risk.

1. Interest risk

Interest risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The interest-bearing financial instrument with fixed interest rate exposes the Company to the fair value interest rate risk, while the interest-bearing financial instrument with floating interest rate exposes the Company to the cash flow interest rate risk. The Company determines the ratio of fixed to floating rate financial instrument in accordance with market circumstance, and maintains the appropriate portfolio of financial instrument through regular review and monitoring. The Company's exposure to cash flow interest rate risk relates primarily to the Company's interest-bearing bank borrowings with floating interest rate.

As of 31 December 2022, the Company's borrowings with interest accrued at floating interest rate totaled RMB190,000,000.00 (31 December 2021: RMB120,000,000.00). If interest rates had been 50 basis points higher/lower and all other variables were held constant, it would not have a significant impact on the Company's total profit and shareholders' interests.

2. Foreign currency risk

Foreign currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company operates in Mainland China, and its main activities are dominated in RMB. Therefore, the Company's exposure to foreign exchange market risk is not significant.

For the Company's monetary assets and liabilities in foreign currencies at the end of the period, please see the explanation of note 5(IV)2 to these financial statements.

Notes to the Financial Statements (Continued)

2022

9. FAIR VALUE DISCLOSURE**(I) Breakdown of fair value at the end of the period of assets and liabilities measured at fair value**

Item	Fair value at the end of the period			Total
	Fair value measured at level 1	Fair value measured at level 2	Fair value measured at level 3	
Recurring fair value measurement				
1. Financial assets held for trading and other non-current financial assets	207,524,486.40			207,524,486.40
(1) Financial assets at fair value through profit or loss for the period	207,524,486.40			207,524,486.40
Equity instruments investment – shares of Hong Kong listed companies	207,524,486.40			207,524,486.40
2. Financing of receivables			2,716,759.60	2,716,759.60
3. Other equity instruments investment			8,197,392.29	8,197,392.29
Total assets measured at fair value on a recurring basis	207,524,486.40		10,914,151.89	218,438,638.29

(II) The determination basis for market price of recurring and non-recurring fair value measurements categorized within level 1

Securities of Hong Kong listed companies, the equity instruments investment of the Company, are financial instruments with active market, thus their fair value are determined based on the quoted price in an active market.

(III) Valuation techniques used and the qualitative and quantitative information of key parameters for recurring and non-recurring fair value measurements categorized within level 3

1. The Company's financing of receivables represents the bank acceptance notes, whose fair value was measured at cost due to the cost represents an appropriate estimate of fair value.
2. For equity instrument investments held by the Company – equity interests of unlisted companies, the Company determined their fair value based on investment cost since the investees had no new round of financing with normal operation and within the original investment expectations.

Notes to the Financial Statements (*Continued*)

2022

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS**(I) Related parties**1. *Information on the parent company of the Company*

The Company is jointly controlled by natural persons and the ultimate controllers are Zhang Haijun, Zhang Junxia, Zhang Xiaogeng, Zhang Xiaosuo, Zhang Ligang, Wu Jinyu, Zhang Chao, Zhang Lijie, Zhang Lifeng, Zhang Yanfeng, Zhang Libin, Zhang Lihuan, Zhang Ning, Zhang Hong and Zhang Ruiqiu.

2. *For details of the Company's subsidiaries, see Note 7 to these financial statements.*3. *Information on the associates of the Company*

For details of the Company's significant associates, see Note 7 to these financial statements.

4. *Information on other related parties of the Company*

Name of other related parties	Relationship between other related parties and the Company
Yang Yunjuan	Spouse of Zhang Lifeng
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Enterprise controlled by actual controllers and their close family members
Yin Yanping	Spouse of Zhang Lihuan

Notes to the Financial Statements (Continued)
2022**10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (Continued)**(II) Related-party transactions**

1. *Related party transactions regarding purchase and sale of goods, provision and acceptance of labour services*

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

Related parties	Information on related party transactions	Amounts for the period	Amount for the same period of last year
Tieke Yichen	Purchase of goods	110,528,728.52	148,036,318.95

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

Related parties	Information on related party transactions	Amounts for the period	Amounts for the same period of last year
Tieke Yichen	Sales of water, electricity and gas	543,198.92	7,333,110.44
Tieke Yichen	Provision of labour services	363,973.84	1,414,997.25
Tieke Yichen	Sales of goods	3,646,040.09	2,955,765.14
Total		4,553,212.85	11,703,872.83

Notes to the Financial Statements (Continued)

2022

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**(II) Related-party transactions** (Continued)

2. Related party leases

The Company as a lessee

Name of lessor	Type of leased assets	Rental expenses for short-term leases and leases of low value assets using the simplified approach and variable lease payments not included in the measurement of lease liabilities	Amounts for the period		
			Rental paid (excluding variable lease payments not included in the measurement of lease liabilities)	Increased lease liabilities principal	Recognised interest expenses
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Building		642,201.84		43,182.98

Name of lessor	Type of leased assets	Rental expenses for short-term leases and leases of low value assets using the simplified approach and variable lease payments not included in the measurement of lease liabilities	Amounts for the same period of last year		
			Rental paid (excluding variable lease payments not included in the measurement of lease liabilities)	Increased lease liabilities principal	Recognised interest expenses
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Building		642,201.84		70,346.12

Notes to the Financial Statements (Continued)
2022**10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (Continued)**(II) Related-party transactions** (Continued)3. *Guarantee with related parties*

The Company and its subsidiaries as the secured parties

Guarantor	Guaranteed amount	Commencement date of the guarantee for principal creditor's rights	Expiry date of the guarantee for principal creditor's rights	Guarantee fully fulfilled
Zhang Lifeng, Yang Yunjuan Zhang Haijun, Wu Jinyu, Zhang Lifeng, Zhang Junxia, Zhang Xiaosuo (Note)	RMB5,000,000	15 June 2022	15 June 2023	No
	RMB30,000,000	9 December 2022	21 November 2023	No

Note: Zhang Haijun, Wu Jinyu, Zhang Lifeng, Zhang Junxia and Zhang Xiaosuo provided joint and several guarantees for the Company's bills payable of RMB30,000,000

4. *Compensation to key management personnel*

Item	Amounts for the period	Amounts for the same period of last year
Directors and supervisors	2,219,291.11	2,194,167.83
Other key management personnel	821,305.70	784,276.74
Total	3,040,596.81	2,978,444.57

Notes to the Financial Statements (Continued)
2022

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Related-party transactions (Continued)

5. Remunerations of directors and supervisors

Item	Amounts for the period					Total
	Salaries, allowances and subsidies	Bonus	Pension insurance	Housing funds	Other social insurance	
Executive director:						
Zhang Haijun	379,440.00					379,440.00
Wu Jinyu	249,260.04		33,343.20	11,748.00	22,278.66	316,629.90
Zhang Chao	239,259.96		33,343.20	10,746.00	21,803.58	305,152.74
Zhang Lihuan	249,260.04		6,668.64	2,532.00	6,964.92	265,425.60
Fan Xiulan						
Ma Xuehui	121,920.04		6,668.64	2,532.00	6,964.92	138,085.60
Independent non-executive director:						
Jip Ki Chi	149,694.51					149,694.51
Zhang Liguo	39,999.96					39,999.96
Wang Qi (Note 1)	13,333.32					13,333.32
Wang Fujun (Note 2)	26,666.64					26,666.64
Supervisor:						
Hu Hebin	261,483.96		33,343.20	12,618.00	22,278.66	329,723.82
Liu Jianbin	99,999.96		13,668.60	4,398.00	9,338.82	127,405.38
Guan En	99,999.96		14,107.32	4,344.00	9,282.36	127,733.64
Total	1,930,318.39		141,142.80	48,918.00	98,911.92	2,219,291.11

Notes to the Financial Statements (Continued)

2022

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**(II) Related-party transactions (Continued)**

5. Remunerations of directors and supervisors (Continued)

Item	Salaries, allowances and subsidies	Amounts for the same period of last year				Total
		Bonus	Pension insurance	Housing funds	Other social insurance	
Executive director:						
Zhang Haijun	376,740.00					376,740.00
Wu Jinyu	246,560.04		31,155.84	10,488.00	19,994.42	308,198.30
Zhang Chao	236,559.96		30,921.60	8,478.00	17,953.42	293,912.98
Zhang Lihuan	246,560.04		6,231.12	2,388.00	6,224.56	261,403.72
Fan Xiulan (Note 3)	169,858.37					169,858.37
Ma Xuehui (Note 4)	10,066.67		519.26	206.00	563.43	11,355.36
Independent non-executive director:						
Jip Ki Chi	144,128.03					144,128.03
Zhang Liguo	39,999.96					39,999.96
Wang Qi	39,999.96					39,999.96
Wang Fujun	–					–
Supervisor:						
Hu Hebin	257,221.20		31,155.84	11,958.00	19,994.42	320,329.46
Liu Jianbin	85,428.46		14,494.32	4,410.00	9,394.84	113,727.62
Guan En	88,170.89		13,692.36	4,050.00	8,600.82	114,514.07
Total	1,941,293.58		128,170.34	41,978.00	82,725.91	2,194,167.83

Note 1: Wang Qi resigned as a Director of the Company on 13 April 2022

Note 2: Wang Fujun serves as a Director of the Company since 31 May 2022

Note 3: Fan Xiulan resigned as a Director of the Company on 2 December 2021

Note 4: Ma Xuehui serves as a Director of the Company since 2 December 2021

Notes to the Financial Statements (Continued)

2022

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**(II) Related-party transactions** (Continued)6. *Five highest paid employees*

The five employees whose emoluments were the highest for the year include 3 (2021: 1) Directors whose details of emoluments are stated in Note 10(II)5 to these financial statements. The details of the remaining 2 (2021: 4) non-director employees' total remunerations are as follows:

Item	Amounts for the period	Amounts for the same period of last year
Salaries, allowances and subsidies	524,341.73	1,217,364.44
Bonus	10,000.00	
Housing funds	12,714.00	21,390.00
Pension insurance	40,011.84	62,430.45
Other social insurance	26,732.34	41,336.38
Total	613,799.91	1,342,521.27

The emoluments of 2 (2021: 4) non-director employees fell within the following bands:

Item	Number for the period	Number for the same period of last year
HKD nil – HKD1,000,000	2	4

Notes to the Financial Statements (Continued)

2022

10. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**(III) Amount due from/to related parties**

1. Amount due from related parties

Name of item	Related party	Closing balance		Closing balance of last year	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Notes receivable	Tieke Yichen	3,000,000.00			
Sub-total		3,000,000.00			
Accounts receivable	Tieke Yichen	6,168,728.64	123,374.57	3,195,646.86	63,912.94
Sub-total		6,168,728.64	123,374.57	3,195,646.86	63,912.94
Other receivables					
	Yin Yanping	36,800.00	736.00		
	Zhang Ning	3,116.95	62.34		
Sub-total		39,916.95	798.34		

2. Amount due to related parties

Name of item	Related party	Closing balance	Closing balance of last year
Accounts payable	Tieke Yichen	109,406,573.16	115,342,756.66
Sub-total		109,406,573.16	115,342,756.66
Bills payable	Tieke Yichen	13,687,862.20	28,500,000.00
Sub-total		13,687,862.20	28,500,000.00
Non-current liabilities due within one year	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	627,472.25	599,018.86
Sub-total		627,472.25	599,018.86
Lease liabilities	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.		627,472.25
Sub-total			627,472.25

Notes to the Financial Statements (Continued)

2022

11. COMMITMENTS AND CONTINGENCIES**(I) Significant commitments**

As of the balance sheet date, the Company has no significant commitments that need to be disclosed.

(II) Contingencies

As of 31 December 2022, the payments for equipment payable by the Company to Jiangsu Taiheda Machinery Co., Ltd. (江蘇泰禾達機械有限公司) was RMB2,490,000. As there were disputes over the payments for equipment between the two parties, on 7 August 2019, Jiangsu Taiheda Machinery Co., Ltd. applied for arbitration with Jiangsu Yancheng Municipal Arbitration Commission (江蘇省鹽城市仲裁委員會). On 20 October 2022, the Company received an execution notice ((2022) Ji 01 Zhi No. 1924) ((2022)冀01執1924號), requiring the Company to fulfill its obligations as determined by Yan Zhong (2019) Digital No. 268 Award (鹽仲(2019)數字第268號裁決書) made by Yancheng Arbitration Commission. Shijiazhuang Intermediate People's Court in Hebei Province filed a case for enforcement in accordance with the law, and the subject matter of the enforcement application was RMB2,910,229.4. As of 31 December 2022, the Company's bank deposits amounting to RMB2,941,731.44 were judicially frozen.

The Company was not satisfied with the arbitration result and applied to Shijiazhuang Intermediate People's Court in Hebei Province for non-enforcement of the arbitration award. On 22 February 2023, Shijiazhuang Intermediate People's Court in Hebei Province suspended the enforcement of Yan Zhong (2019) Digital No. 268 Award made by Yancheng Arbitration Commission. As of the date of approving the publication of these financial statements, the above-mentioned case had not finally reached a verdict. Due to the uncertainty of the outcome of the verdict, the Company has accrued estimated liability of RMB451,731.44 based on the guarantee amount of RMB2,941,731.44 for application of award suspension, less the equipment payable of RMB2,490,000.00 based on the requirement of the prudence principle.

12. EVENTS AFTER THE BALANCE SHEET DATE**Profit distribution after the balance sheet date**

Profits or dividends proposed to distribute

Profits or dividends declared to distribute after review and approval

On 30 March 2023, the Board of Directors of the Company convened a meeting to approve the profit distribution scheme for the year 2022, pursuant to which the Company intended to distribute RMB0.0501 per share in cash dividend to all shareholders, amounting to total cash dividend of RMB44,981.784.00, based on the total share capital of 897,840,000 shares as at 31 December 2022. The above preliminary scheme for profit distribution is subject to review and approval at the general meeting of the Company.

Notes to the Financial Statements (*Continued*)

2022

13. OTHER SIGNIFICANT EVENTS**(I) Segment Information**

The major business of the Company is the manufacturing and sales of rail fastening system, welding wire and railway sleeper products. The Company regards this business as a whole to implement management and assess operating results. Accordingly, the segment information does not require disclosure. Details of the Company's revenue breakdown are set out in Note 5(II)1 to these financial statements.

(II) Lease**1. The Company as a lessee**

- (1) For relevant details of the right-of-use assets, see Note 5(I)15 to these financial statements.
- (2) For details of the Company's accounting policies for short-term leases and low-value asset leases, see Note 3(XXV) to these financial statements. The amount of short-term lease expenses and low-value asset lease expenses through profit or loss for the period are as follows:

Item	Amounts for the period	Amounts for the same period of last year
Short-term lease expenses	346,212.89	441,756.06
Total	346,212.89	441,756.06

- (3) Profit or loss and cash flows related to the lease for the period

Item	Amounts for the period	Amounts for the same period of last year
Interest expenses of lease liability	43,182.98	70,346.12
Total cash outflow related to the lease	1,046,212.89	1,201,072.97

- (4) For the analysis of the maturity of lease liabilities and the corresponding liquidity risk management, see Note 8(II) to these financial statements.

2. Sale and leaseback transaction

The Company entered into the Sale and Leaseback Contract with Far Eastern Horizon (Tianjin) Financial Leasing Co., Ltd. (遠東宏信(天津)融資租賃有限公司) in December 2019, pursuant to which the fixed assets with an original book value of RMB65,936,564.98 as at 31 December 2019 and a book value of RMB23,758,302.26 were sold and leased back for use with a term of 3 years, commencing from 31 December 2019 to 31 December 2022. The total lease price amounted to RMB76,321,204.86 would be paid in 36 installments. The asset transfer in the sale and leaseback transaction is not a sale, and the Company continues to recognise the transferred assets, and at the same time recognises a financial liability equivalent to the amount of transfer revenue, and the financial liabilities should be accounted for in accordance with the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments. As of 31 December 2022, liabilities under the contract had been fully repaid.

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY**(I) Notes to items of the balance sheet of the parent company**1. *Accounts receivable*(1) Breakdown

1) Breakdown by category

Category	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	12,496,078.44	0.88	12,496,078.44	100.00	
Provision for bad debts made as per portfolio	1,406,216,036.56	99.12	176,574,374.98	12.56	1,229,641,661.58
Total	1,418,712,115.00	100.00	189,070,453.42	13.33	1,229,641,661.58

Category	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	13,132,699.88	1.20	13,132,699.88	100.00	
Provision for bad debts made as per portfolio	1,079,783,980.81	98.80	122,990,969.95	11.39	956,793,010.86
Total	1,092,916,680.69	100.00	136,123,669.83	12.46	956,793,010.86

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)

1. Accounts receivable (Continued)

(1) Breakdown (Continued)

- 2) Accounts receivable with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Customer 1	2,658,928.00	2,658,928.00	100.00	Bankrupted and reorganised
Customer 2	1,697,366.42	1,697,366.42	100.00	Execution applied
Customer 3	1,547,308.00	1,547,308.00	100.00	Execution applied
Customer 4	1,292,293.60	1,292,293.60	100.00	Bankrupted and liquidated
Others	5,300,182.42	5,300,182.42	100.00	Litigated, with low possibility of payment recovery
Sub-total	12,496,078.44	12,496,078.44	100.00	

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)

1. Accounts receivable (Continued)

(1) Breakdown (Continued)

3) Trade receivables with provision for bad debts made as per portfolio

① Trade receivables with provision for bad debts made as per portfolio

Item	Book balance	Closing balance	
		Provision for bad debts	Percentage of provision (%)
Loan portfolio	1,302,069,720.79	153,647,379.20	11.80
Retention monies portfolio	103,571,551.68	22,926,995.78	22.14
Group of related parties within the scope of combination	574,764.09		
Sub-total	1,406,216,036.56	176,574,374.98	12.56

② Account receivables in loan portfolio for which provision for bad debts has been made using the comparison table of expected credit loss rate

Ageing	Book balance	Closing balance	
		Provision for bad debts	Percentage of provision (%)
Within 1 year	793,831,117.01	15,876,622.34	2.00
1 to 2 years	332,078,330.28	33,207,833.03	10.00
2 to 3 years	54,433,415.70	16,330,024.71	30.00
3 to 4 years	57,973,782.22	28,986,891.11	50.00
4 to 5 years	22,535,337.84	18,028,270.27	80.00
Over 5 years	41,217,737.74	41,217,737.74	100.00
Total	1,302,069,720.79	153,647,379.20	11.80

Notes to the Financial Statements (Continued)
2022**14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)****(I) Notes to items of the balance sheet of the parent company (Continued)**

1. Accounts receivable (Continued)

(1) Breakdown (Continued)

3) Trade receivables with provision for bad debts made as per portfolio (Continued)

③ Trade receivables in retention monies portfolio for which provision for bad debts has been made using the comparison table of expected credit loss rate

Ageing	Closing balance		
	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year	56,067,039.42	8,410,055.91	15.00
1 to 2 years	19,031,477.04	2,854,721.56	15.00
2 to 3 years	16,435,453.33	4,930,636.00	30.00
3 to 4 years	9,661,610.68	4,830,805.34	50.00
4 to 5 years	2,375,971.21	1,900,776.97	80.00
Total	103,571,551.68	22,926,995.78	22.14

(2) Aging analysis

Ageing	Closing balance			Closing balance of last year		
	Book balance	Provision for bad debts	Percentage of provision (%)	Book balance	Provision for bad debts	Percentage of provision (%)
Within 1 year	850,472,920.52	24,286,678.25	2.86	773,640,126.31	20,578,296.08	2.66
1 to 2 years	351,109,807.32	36,062,554.59	10.27	140,914,006.11	15,041,170.69	10.67
2 to 3 years	70,868,869.03	21,260,660.71	30.00	82,750,322.46	24,825,096.74	30.00
3 to 4 years	67,635,392.90	33,817,696.45	50.00	34,111,679.55	18,103,765.29	53.07
4 to 5 years	26,304,952.87	21,322,691.06	81.06	19,791,874.71	15,866,669.48	80.17
Over 5 years	52,320,172.36	52,320,172.36	100.00	41,708,671.55	41,708,671.55	100.00
Total	1,418,712,115.00	189,070,453.42	13.33	1,092,916,680.69	136,123,669.83	12.46

The ageing analysis of accounts receivable is based on the month in which the amount actually occurs. The amount that occurs first has priority in settlement upon transfer of funds. The Company generally grants to the customer a credit term based on the contract agreed between the Company and the customer. Overdue receivables are regularly reviewed by the management.

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)1. *Accounts receivable* (Continued)(3) Changes in provision for bad debt

Item	Opening balance	Increase in the period			Decrease in the period			Closing balance
		Provision	Recovery	Others (Note)	Reversal	Write-off	Others	
Provision for bad debts made individually	13,132,699.88				636,621.44			12,496,078.44
Provision for bad debts made as per portfolio	122,990,969.95	48,807,013.29		4,776,391.74				176,574,374.98
Total	136,123,669.83	48,807,013.29		4,776,391.74	636,621.44			189,070,453.42

Note: Other increases during the period represented the transfer of the impairment provision for matured retention monies from impairment provision for contract assets to bad debt provision for accounts receivable

(4) Top 5 entities by the amount of accounts receivable

Name of entity	Book balance	Percentage of the balance of accounts receivable (%)	Provision for bad debts
Customer 5	333,317,137.38	23.49	14,277,184.84
Customer 6	93,997,210.00	6.63	28,988,745.56
Customer 7	82,563,623.06	5.82	5,929,888.69
Customer 8	79,664,915.87	5.62	6,625,302.09
Customer 9	71,232,034.07	5.02	4,199,888.97
Sub-total	660,774,920.38	46.58	60,021,010.15

Notes to the Financial Statements (Continued)
2022**14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)

2. Other receivables

(1) Breakdown

1) Breakdown by category

Category	Carrying amount		Closing balance		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Provision for bad debts made individually	761,173.00	5.88	761,173.00	100.00	
Provision for bad debts made as per portfolio	12,174,246.15	94.12	1,885,355.82	15.49	10,288,890.33
Total	12,935,419.15	100.00	2,646,528.82	20.46	10,288,890.33

Category	Carrying amount		Closing balance of last year		Book value
	Amount	Proportion (%)	Amount	Percentage of provision (%)	
Provision for bad debts made individually	761,173.00	7.39	761,173.00	100.00	
Provision for bad debts made as per portfolio	9,540,296.38	92.61	2,307,258.08	24.18	7,233,038.30
Sub-total	10,301,469.38	100.00	3,068,431.08	29.79	7,233,038.30

2) Other receivables with provision for bad debts made individually at the end of the period

Name of entity	Book balance	Provision for bad debts	Percentage of provision (%)	Reason for provision
Customer 10	761,173.00	761,173.00	100.00	In litigation
Sub-total	761,173.00	761,173.00	100.00	

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)

2. Other receivables (Continued)

(1) Breakdown (Continued)

3) Other receivables with provision for bad debts made as per portfolio

Portfolios	Closing balance		
	Book balance	Provision for bad debts	Percentage of provision (%)
Security deposits receivable portfolio	8,625,781.50	1,810,546.37	20.99
Imprest receivable portfolio	543,164.65	13,819.45	2.54
Other portfolios	3,005,300.00	60,990.00	2.03
Total	12,174,246.15	1,885,355.82	15.49

(2) Ageing Status

Ageing	Book balance at the end of the period
Within 1 year	6,440,184.45
1 to 2 years	715,752.00
2 to 3 years	1,845,115.31
3 to 4 years	1,357,194.39
4 to 5 years	740,000.00
Over 5 years	1,837,173.00
Total	12,935,419.15

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)

2. Other receivables (Continued)

(3) Changes in provision for bad debts

Item	Phase I	Phase II	Phase III	Total
	Expected credit loss in following 12 months	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Opening balance	81,070.64	337,648.48	2,649,711.96	3,068,431.08
Opening balance for the period	-	-	-	
- Transfer to phase II	-19,137.35	19,137.35		
- Transfer to phase III		-11,000.00	11,000.00	
- Reverse to phase II				
- Reverse to phase I				
Provision for the period	95,566.17	47,473.33	-564,941.76	-421,902.26
Recovery for the period				
Reversal for the period				
Write-off for the period				
Other changes				
Closing balance	157,499.46	393,259.16	2,095,770.20	2,646,528.82

(4) Classification of other receivables by nature

Nature	Closing balance	Closing balance of last year
Security deposits portfolio	9,386,954.50	9,466,537.50
Imprest portfolio	543,164.65	499,631.88
Others portfolios	3,005,300.00	335,300.00
Total	12,935,419.15	10,301,469.38

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(i) Notes to items of the balance sheet of the parent company** (Continued)

2. Other receivables (Continued)

(5) Top 5 entities by the amount of other receivables

Name of entity	Nature	Book balance	Ageing	Percentage of the balance of other receivables (%)	Provision for bad debts
Customer 11	Refund receivable	3,000,000.00	Within 1 year	23.19	60,000.00
Customer 12	Security deposits	40,000.00	Within 1 year	0.31	800.00
		640,000.00	2 to 3 years	4.95	12,800.00
		640,000.00	3 to 4 years	4.95	53,100.00
Sub-total		1,320,000.00		10.20	66,700.00
Customer 13	Security deposits	986,915.31	2 to 3 years	7.63	89,537.30
Customer 10	Security deposits	761,173.00	Over 5 years	5.88	761,173.00
Customer 14	Security deposits	200,000.00	3 to 4 years	1.55	30,000.00
		300,000.00	4 to 5 years	2.32	45,000.00
		100,000.00	Over 5 years	0.77	15,000.00
Sub-total		600,000.00		4.64	90,000.00
Total		6,668,088.31		51.55	1,067,410.30

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(I) Notes to items of the balance sheet of the parent company** (Continued)

3. Long-term equity investments

(1) Breakdown

Item	Closing balance			Closing balance of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	319,231,767.36	35,207,801.11	284,023,966.25	319,224,553.96	11,540,960.76	307,683,593.20
Investments in associates ventures	235,025,837.98		235,025,837.98	206,271,660.90		206,271,660.90
Total	554,257,605.34	35,207,801.11	519,049,804.23	525,496,214.86	11,540,960.76	513,955,254.10

(2) Investment in subsidiaries

Investees	Book balance	Increase in the period	Decrease in the period	Closing balance	Provision for impairment in the period	Closing balance of provision for impairment
Yichen Railway Engineering Equipment	154,899,553.96			154,899,553.96		
Yichen Corporate Management	2,950,000.00			2,950,000.00		
Yichen Welding	3,000,000.00			3,000,000.00		
Xingtai Juneng	146,834,039.24		23,666,840.35	123,167,198.89	23,666,840.35	35,207,801.11
Yichen Hong Kong Trading		7,213.40		7,213.40		
Sub-total	307,683,593.20	7,213.40	23,666,840.35	284,023,966.25	23,666,840.35	35,207,801.11

Notes to the Financial Statements (Continued)
2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Notes to items of the balance sheet of the parent company (Continued)

3. Long-term equity investments (Continued)

(3) Investments in associates

Investees	Opening balance	Increase or decrease during the period			Investment profit or loss recognised using equity method	Adjustment to other comprehensive income
		Additional investments	Decrease in investments			
Associate						
Hebei Tieke Yichen New Material Technology Co., Ltd						
	206,271,660.90				32,661,927.08	
Total	206,271,660.90				32,661,927.08	

Investees	Increase or decrease during the period				Closing balance	Closing balance of provision for impairment
	Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others		
Associate						
Hebei Tieke Yichen New Material Technology Co., Ltd						
		3,907,750.00				235,025,837.98
Total		3,907,750.00				235,025,837.98

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(II) Notes to the items of statement of profit or loss of the parent company**

1. Operating revenue/Operating cost

(1) Breakdown

Item	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	1,183,596,123.39	920,293,443.12	1,251,860,687.45	884,399,843.85
Other operating revenue	8,030,679.22	4,664,400.87	16,631,810.72	11,435,816.98
Total	1,191,626,802.61	924,957,843.99	1,268,492,498.17	895,835,660.83
Including: Revenue from contracts with customers	1,191,626,802.61	924,957,843.99	1,268,492,498.17	895,835,660.83

(2) Breakdown of revenue from contracts with customers by main category

1) Breakdown of revenue by types of goods or services

Item	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Rail fastening system	871,575,129.38	622,301,890.06	1,006,839,092.88	651,939,599.97
Welding material	311,209,866.64	297,115,764.66	241,893,334.16	229,466,292.39
Railway sleepers	811,127.37	875,788.40	3,128,260.41	2,993,951.49
Others	8,030,679.22	4,664,400.87	16,631,810.72	11,435,816.98
Sub-total	1,191,626,802.61	924,957,843.99	1,268,492,498.17	895,835,660.83

Notes to the Financial Statements (Continued)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(II) Notes to the items of statement of profit or loss of the parent company** (Continued)

1. Operating revenue/Operating cost (Continued)

(2) Breakdown of revenue from contracts with customers by main category (Continued)

2) Breakdown of revenue by region of operation

Item	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Domestic	1,155,838,080.74	894,528,950.63	1,232,969,538.43	863,453,315.14
Overseas	35,788,721.87	30,428,893.36	35,522,959.74	32,382,345.69
Sub-total	1,191,626,802.61	924,957,843.99	1,268,492,498.17	895,835,660.83

3) Breakdown of revenue by time of transfer of goods or services

Item	2021	2020
Revenue recognised at a point in time	1,191,626,802.61	1,268,492,498.17
Sub-total	1,191,626,802.61	1,268,492,498.17

- (3) The revenue recognised during the period and included in the book value of contract liabilities at the beginning of the period was RMB4,728,083.79.

Notes to the Financial Statements (*Continued*)

2022

14. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (*Continued*)**(II) Notes to the items of statement of profit or loss of the parent company** (*Continued*)2. *Research and development expense*

Item	Amounts for the period	Amounts for the same period of last year
Material costs	24,799,942.06	25,515,788.13
Payroll	9,302,602.27	9,394,170.55
Electricity charges	5,096,733.34	4,086,981.71
Depreciation	920,601.85	1,660,587.26
Others		15,583.00
Total	40,119,879.52	40,673,110.65

3. *Investment gains*

Items	Amounts for the period	Amounts for the same period of last year
Gains from long-term equity investment calculated under equity method	32,661,927.08	31,957,141.08
Losses on discount of financing of receivables		-84,119.02
Investment gains from financial assets held for trading during the holding period	2,003,804.65	2,228,547.30
Investment gains from disposal of financial assets held for trading	6,412,555.14	
Procedural fees for subscription of financial assets held for trading	-69,258.23	-36,301.95
Total	41,009,028.64	34,065,267.41

Notes to the Financial Statements (*Continued*)

2022

15. OTHER SUPPLEMENTAL INFORMATION**(I) Non-recurring gain or loss**1. *Breakdown of non-recurring gain or loss*
(1) Breakdown

Breakdown	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of write-off of impairment provision for assets	-33,953.53	
Unauthorized approvals or items without duly approved documents, or occasional tax rebate or tax credits		
Government grants (except for government grants which are closely related to the Company's ordinary business and conform with the national policies as well as continuous entitlement to a certain standard amount or quantities) recognised in profit or loss	1,570,438.24	
Fees for usage of funds received from non-financial enterprises recognised in profit or loss		
Gains generated on gain derived from the fair value of the investee's identifiable net assets at the time of investment less the investment cost in acquiring the subsidiaries, associates and joint ventures		
Gains or losses from the exchange of non-monetary assets		
Gains or losses from entrusted investment or assets management		
Impairment provisions for assets due to force majeure factors such as natural disasters		
Gains or losses from debt restructuring		
Corporate restructuring fees such as staff resettlement expenses, consolidation charges, etc.		
Gains or losses arising from transactions at unfair trading prices over their fair value		
Net gains or losses for the period derived from the subsidiary generated by a business combination under common control from the beginning of the period to the date of combination		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Gains and losses from changes in fair value arising from financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and investment gains from disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, other than effective hedging activities associated with normal business operations of the Company	104,315,133.33	
Reversal of impairment provisions for receivables and contract assets subject to individual impairment test	636,621.44	
Gains or losses from external entrusted loans		
Gains or losses from changes in fair value of investment properties using fair value method for subsequent measurement		
Effect on the current gains and losses from one-off adjustment according to the requirements of the tax and accounting laws and regulations		
Trust income received from entrusted operation		
Other non-operating income and expenses apart from those stated above	-819,762.03	
Other gains and losses items conforming with the definition of non-recurring gains or losses	12,163.65	
Sub-total	105,680,641.10	
Less: Effect on enterprise income tax ("-" for income tax decrease)	15,425,192.65	
Effect on interest of minority shareholders (after tax)	11,557.14	
Items of non-recurring gains or losses attributable to owners of the parent	90,243,891.31	

Notes to the Financial Statements (Continued)

2022

15. OTHER SUPPLEMENTAL INFORMATION (Continued)**(I) Non-recurring gain or loss** (Continued)

1. Breakdown of non-recurring gain or loss (Continued)

(2) Description of major non-recurring profit and loss items

Other than its effective hedging activities associated with normal business operations, the Company incurred gains and losses from changes in fair value arising from financial assets held for trading, derivative financial assets, financial liabilities held for trading and derivative financial liabilities, and investment gains from disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other debt investments, which amounted to RMB104,315,133.33, including gains and losses from changes in fair value arising from shares of Hong Kong listed companies held by the Company of RMB95,898,773.54 during the period, investment gains of dividends recognised from shares of RMB2,003,804.65 during the period and investment gains from disposal of financial assets held for trading of RMB6,412,555.14.

(II) Return on net assets and earnings per share

1. Breakdown

Profit during the reporting period	Weighted average return on net assets ratio (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	6.71	0.18	0.18
Net profit after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	2.95	0.08	0.08

Notes to the Financial Statements (Continued)

2022

15. OTHER SUPPLEMENTAL INFORMATION (Continued)**(II) Return on net assets and earnings per share** (Continued)

2. Calculation progress of weighted average return on net assets ratio

Item	No.	Amounts for the period
Net profit attributable to ordinary shareholders of the Company	A	161,032,059.26
Non-recurring profit or loss	B	90,243,891.31
Net profits after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	C=A-B	70,788,167.95
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	2,349,723,030.72
Additions to net assets as a result of an issue of shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Cumulative months from the month after increase in assets to end of reporting period	F	
Net assets attributable to ordinary shareholders of the Company due to reductions in repurchases or cash dividends	G	49,650,552.00
Cumulative months from the month after decrease in assets to end of reporting period	H	7
Decrease of net assets in other comprehensive income	I	123,507.71
Cumulative months from the next month following the impact to net assets to the end of the Reporting Period	J	6
Number of months during the reporting period	K	12
Weighted average net assets	$L = D + A/2 + E \times F/K - G \times H/K \pm I \times J/K$	2,401,214,484.49
Weighted average return on net assets ratio	$M = A/L$	6.71%
Weighted average return on net assets ratio, after deduction of non-recurring profit or loss	$N = C/L$	2.95%

Notes to the Financial Statements (Continued)

2022

15. OTHER SUPPLEMENTAL INFORMATION (Continued)**(II) Return on net assets and earnings per share** (Continued)

3. Calculations progress of basic and diluted earnings per share

(1) Calculations progress of basic earnings per share

Item	No.	Amounts for the period
Net profits attributable to the ordinary shareholders of the Company	A	161,032,059.26
Non-recurring profit or loss	B	90,243,891.31
Net profits after deducting non-recurring profit or loss attributable to the ordinary	C=A-B	70,788,167.95
Total number of shares at beginning of the period	D	897,840,000.00
Increase in number of shares due to transfer from reserves to capital or distribution of scrip dividend	E	
Increase in number of shares due to issuance of new shares or convertibles	F	
Cumulative months from the month after increase in shares to end of reporting period	G	
Decrease in number of shares due to repurchase	H	
Cumulative months from the month after decrease in shares to end of reporting period	I	
Reduction in number of shares during the reporting period	J	
Number of months in the reporting period	K	12
Weighted average number of outstanding ordinary shares	$L=D+E+F \times G/K-H \times I/K-J$	897,840,000.00
Basic earnings per share	$M=A/L$	0.18
Basic earnings per share after deducting non-recurring profit or loss	$N=C/L$	0.08

(2) Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

Hebei Yichen Industrial Group Corporation Limited

19 April 2023

DEFINITIONS

“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 30 November 2015 and as amended, supplemented or otherwise modified from time to time
“Auditor”	Pan-China Certified Public Accountant LLP
“Board” or “Board of Directors”	the board of Directors of our Company
“business day”	any day (excluding a Saturday, Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CG Code”	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
“China” or the “PRC”	the People’s Republic of China excluding, for the purpose of this annual report, Hong Kong, Macao Special Administrative Region of the People’s Republic of China and Taiwan, and “Chinese” shall be construed accordingly
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company”, “our Company” or “Yichen Industrial”	Hebei Yichen Industrial Group Corporation Limited* (河北翼辰實業集團股份有限公司), formerly known as Hebei Yichen Industrial Group Co., Ltd.* (河北翼辰實業集團有限公司), a joint stock limited company incorporated on 9 April 2001 under the laws of the PRC
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules, and in the context of this annual report, refers to the controlling shareholder(s) of our Company, being Mr. Zhang Haijun (張海軍), Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋)

Definitions (Continued)

“Controlling Shareholders Group”	collectively, Mr. Zhang Haijun (張海軍), Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋), being a group of 15 individuals
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“China Railway Test & Certification Center”	China Railway Test & Certification Center Limited (中鐵檢驗認證中心有限公司), an official certification authority of railway construction products of China
“Director(s)”	the director(s) of our Company
“Domestic Shares”	domestic ordinary shares in our capital, with a nominal value of RMB0.5 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange
“EIT”	the enterprise income tax of the PRC
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was adopted by the National People’s Congress on 16 March 2007 and became effective on 1 January 2008
“flux cored wire”	opposite of the covered electrode. The outer shell is made of steel and the powder in it works as flux. The steel-made coat would be exposed to the air first and be oxidized during the process of welding
“Global Offering”	the Hong Kong Public Offering and the International Offering as defined in the prospectus of the Company dated 9 December 2016
“Group”, “our Group”, “we” or “us”	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
“Grantee”	means an Eligible Participant selected by the Board pursuant to the rules of the Scheme for the grant of an Award
“H Share Registrar”	Computershare Hong Kong Investor Services Limited



Definitions *(Continued)*

“H Share(s)”	overseas listed foreign ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB0.5 each, which are listed on the Stock Exchange and traded in Hong Kong dollars
“heavy-haul railway”	freight dedicated railway with tractive tonnage of no less than 8,000 tons, axle load on rail reaching 25 tons or more, and annual freight volume of no less than 40 million tons
“high-speed railway”	newly constructed passenger dedicated railway with a designated speed of up to 250 km/h and a preliminary operating speed of at least 200 km/h
“HKD”, “HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“IFRSs”	International Financial Reporting Standards
“Independent Third Party(ies)”	person(s) or company(ies) which is (are) not a connected person(s) or core connected person(s) (as defined in the Listing Rules) of our Company
“INED(s)”	independent non-executive Director(s) of the Company
“intercity railway”	rapid, convenient and high-density passenger dedicated railway with a designed speed of 200 km/h or lower, which is dedicated to serving cities or among city clusters
“km”	kilometer
“km/h”	kilometer per hour
“Listing”	listing of the H Shares on the Main Board
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Definitions (*Continued*)

“Longji”	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd. (石家莊市藁城區隆基企業管理有限公司), a limited liability company established under the laws of the PRC on 8 June 2013 and controlled by connected persons of the Company as at the latest practicable date
“Main Board”	the stock market operated by the Stock Exchange which is independent from and operated in parallel to the GEM of the Stock Exchange
“metro”	a passenger railway in an urban area with high capacity and frequency
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Mr. Zhang Haijun”	Mr. Zhang Haijun (張海軍), an executive Director, the chairman of the Board and the representative of the Controlling Shareholders Group
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
“rail fastening system(s)” or “rail fastening system products”	a railway component used to fix sleeper and steel rail to ensure the safe operation of the railway, including its parts and components
“railway”	the generic term for national railway and intercity railway. National railway includes normal-speed railway and high-speed railway
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“sanctioned countries”	countries being internationally sanctioned, representing the countries in the sanction list of the European Union, the United States, Australia or the United Nations
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary Shares of RMB0.5 each in the share capital of our Company, comprising Domestic Shares and H Shares



Definitions *(Continued)*

“Shareholder(s)”	holder(s) of the Share(s)
“State Council”	the State Council of the PRC
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules, unless the context otherwise requires
“Supervisor(s)”	the supervisor(s) of our Company
“Supervisory Board”	the supervisory board of our Company
“urban transit”	passenger trains in the city, most of which are underground trains and some are overground trains
“Vesting Date”	in relation to any Grantee, the date on which the legal and beneficial ownership of the Awarded Shares are vested in such Grantee pursuant to an Award
“14th Five-Year Plan”	the 14th five-year plan for national economic and social development (2021–2025) approved by the fourth meeting of the Thirteenth National People's Congress in 2021
“%”	per cent.