



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



2023

ANNUAL REPORT



* For identification purpose only



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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

Independent non-executive Directors

Mr. Jip Ki Chi
 Mr. Wang Fujun
 Mr. Zhang Ligu

SUPERVISORS

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Wang Fujun (*Chairman*)
 Mr. Wu Jinyu
 Mr. Zhang Ligu

CORPORATE GOVERNANCE COMMITTEE

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

STRATEGY COMMITTEE

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

COMPANY SECRETARIES

Ms. Ng Wai Kam (ACG, HKACG)
 Mr. Zhang Chao⁽¹⁾

AUTHORISED REPRESENTATIVES

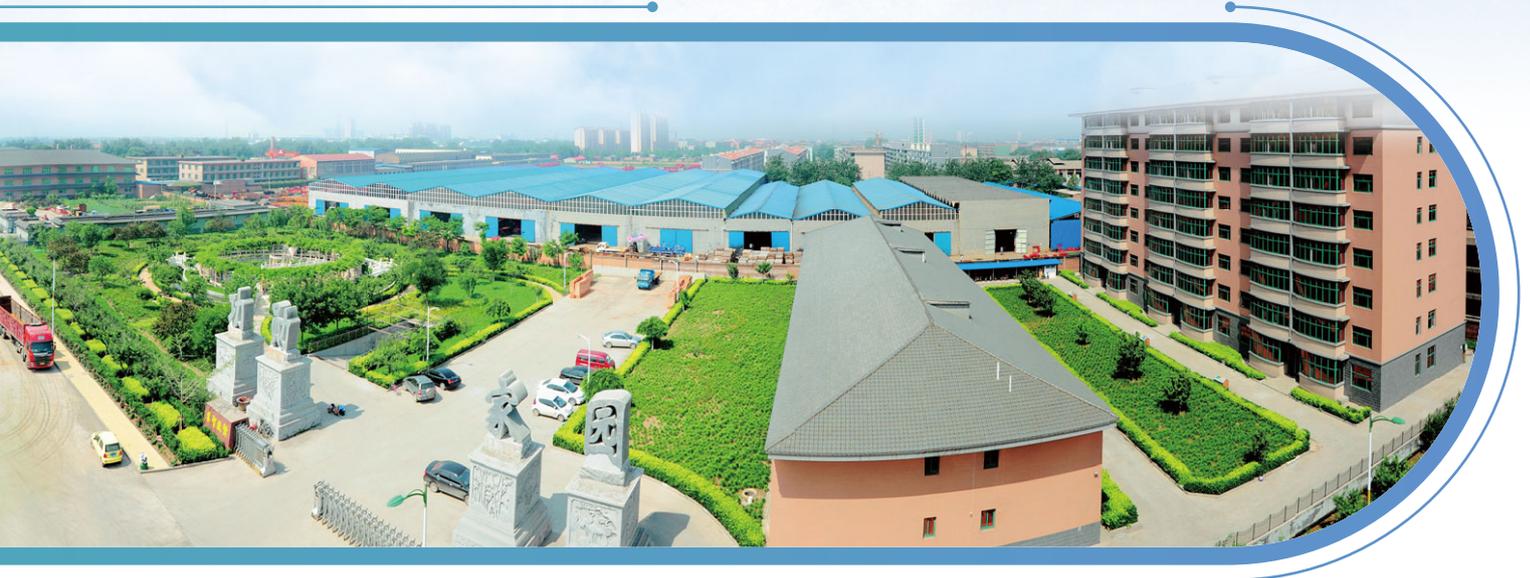
Mr. Zhang Haijun
 Ms. Ng Wai Kam

ALTERNATES TO THE AUTHORISED REPRESENTATIVES

Mr. Wu Jinyu
 Mr. Zhang Chao

⁽¹⁾ Resigned as joint company secretary with effect from 17 January 2023

Corporate Information (Continued)

**AUDITOR**

Pan-China Certified Public Accountants LLP
 No. 128, Xixi Road
 Lingyin Sub-district, Xihu District
 Hangzhou City, Zhejiang Province
 China

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
 348 Kwun Tong Road, Kowloon
 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

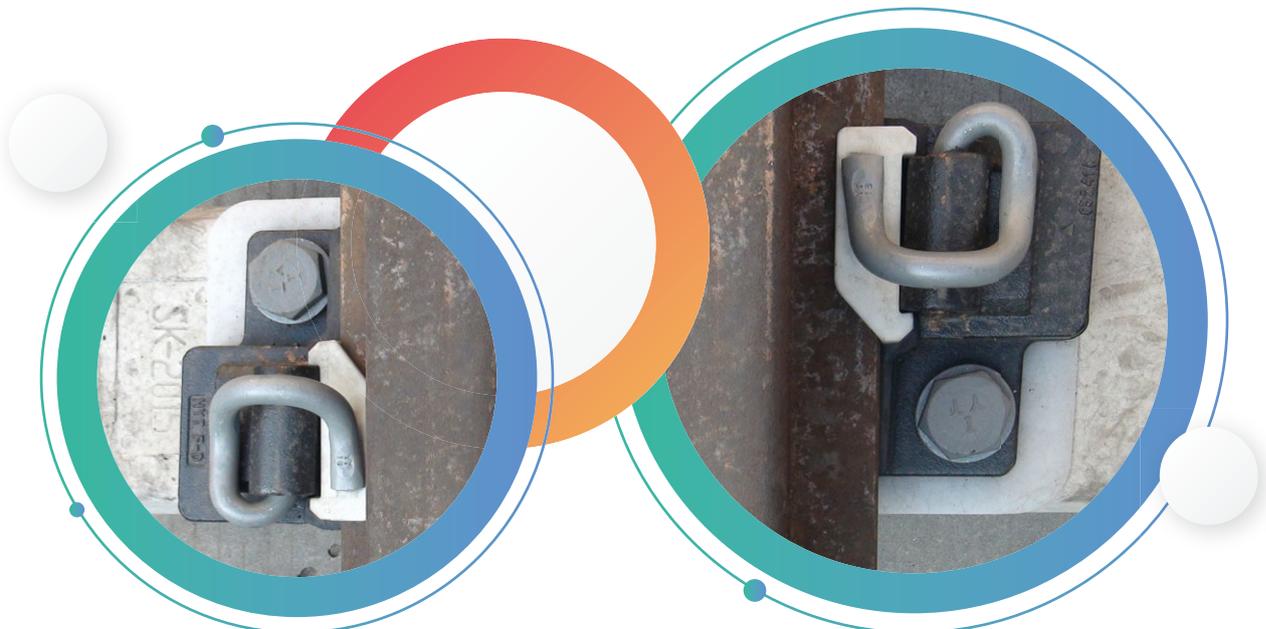
<http://www.hbyc.com.cn>

FINANCIAL SUMMARY

	2023	2022 (Restated)	2021	2020	2019 (Restated)
Results (RMB'000)					
Revenue	1,196,146	1,258,266	1,363,645	1,142,058	1,136,913
Cost of sales	(904,796)	(955,756)	(947,636)	(736,634)	(773,825)
Gross profits	291,350	302,510	416,009	405,424	363,088
Selling expenses	(19,793)	(18,693)	(21,260)	(18,823)	(20,417)
Management expenses	(95,520)	(79,716)	(82,105)	(69,994)	(65,197)
Profit before income tax	50,131	183,475	284,481	296,379	227,656
Net profit attributable to owners of the parent	49,445	161,033	246,088	252,233	193,822

	2023	2022 (Restated)	2021	2020	2019 (Restated)
Assets and Liabilities (RMB'000)					
Non-current assets	1,490,877	1,409,309	1,296,395	1,103,620	991,880
Current assets	1,948,314	2,186,122	1,925,586	1,794,407	1,855,981
Non-current liabilities	155,078	202,978	225,466	32,131	124,051
Current liabilities	805,209	919,183	635,634	753,491	726,826
Equity attributable to owners of the parent	2,465,760	2,460,984	2,349,723	2,103,635	1,921,800

The Group has adopted the PRC Accounting Standards for Business Enterprises in the preparation of its overseas financial statements since 2019.



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 2023.

2023 REVIEW

Although the economy in 2023 is still experiencing relatively more unstable and uncertain factors, there are various conditions which are conducive to the development of our national economy, and its economic fundamentals remain positive in the long term. According to the data released by the National Bureau of Statistics, GDP for the year of 2023 increased by 5.2% year-on-year at constant prices.

Looking back at the past year, new achievements were made in China's high-quality development of railways. According to the National Railway Administration, in 2023, the fixed asset investments in national railways amounted to RMB764.5 billion, representing a year-on-year increase of 7.5%. As at the end of 2023, the operational mileage of China's railways exceeded 159,000 km, of which 45,000 km were high-speed railways. Since 2023, China State Railway Group Co., Ltd. ("State Railway Group") has coordinated resources available for construction, improved arrangements for construction, strengthened safety and quality control, and promoted the railway construction in a scientific and orderly manner with a batch of new rail lines being completed and put into operation successively. The

Jinan-Zhengzhou High-speed Railway was fully put into operation, the Lijiang-Shangri-La Railway and the Sichuan-Qinghai Railway (Qingbaijiangdong-Zhenjiangguan section) were put into operation and opened to traffic, and the railway construction in Western China has entered a stage of "acceleration". The projects under construction such as the Tianjin-Beijing Daxing Airport Intercity Railway, the Nanchang-Jingdezhen-Huangshan High-speed Railway, the Chengdu-Zigong-Yibin High-speed Railway, the Shantou-Shanwei High-speed Railway (Shantou nan-Shanwei section), the Longyan-Longchuan High-speed Railway (Longyan-Wuping section) have made important progress and entered the countdown stage for opening. At the same time, we accelerated the preliminary work of key projects, and started the construction of the Yan'an-Yulin High-speed Railway and the Huangtong-Baise Railway, giving an impetus to railway construction investment.

In addition, for the year ended 31 December 2023, the revenue of the Group amounted to approximately RMB1,196.1 million, representing a decrease of approximately 4.9% over the same period of last year; the net profit attributable to equity shareholders of the Company amounted to approximately RMB49.4 million, representing a decrease of approximately 69.3% over the same period of last year; and earnings per share amounted to approximately RMB0.06.

Chairman's Statement (*Continued*)

2024 OUTLOOK

According to the working meeting of State Railway Group in 2024, priorities will be maintaining railway safety and stability, and completing the national railway investment task in an all-round manner. More than 1,000 km of new lines will be put into operation.

A leaders and cadres meeting of State Railway Group was held in Beijing on 17 July 2023. According to the State Railway Group, the railway department will, making reference to the requirements put forward at the work meeting of State Railway Group and the deployment requirements of the leading Party members groups, focus on the targeted goals, fulfill responsibilities, move ahead steadily and make efforts in order to complete the annual targets and tasks in all aspects and to ensure the spirit of the 20th National Congress of the Communist Party of China ("CPC") and the deployment resolved by the CPC Central Committee are carried out in state railway enterprises, taking solid actions to bravely serve as a "locomotive" that supports the Chinese modernisation.

As a leading rail fastening system and railway sleeper provider in the railway industry of China, the Group will seize the market development opportunities, 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 the implementation of railway-related projects under the 102 key construction projects identified by the Outline of the national "14th Five-Year Plan", making our contribution 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.

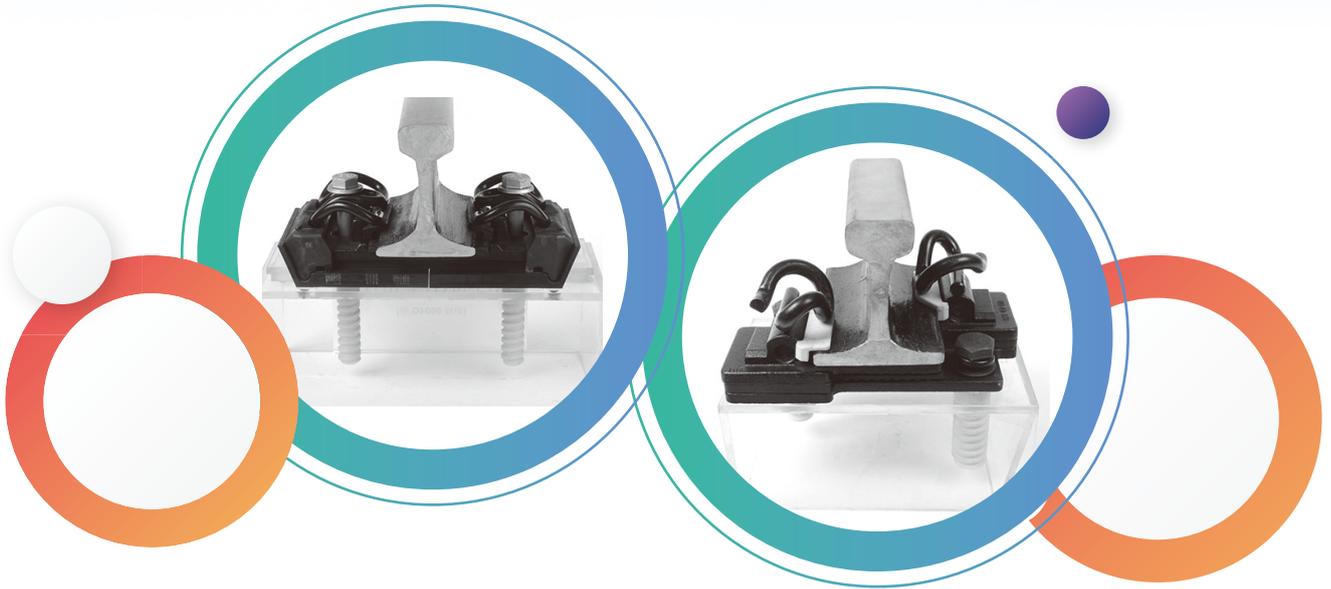
Finally, I would like to express my sincere gratitude to our Directors, management team and all the staff members of the Company for their hard work in 2023. I also wish to extend my sincere gratitude to our shareholders and business partners for their strong support over the past year.

Zhang Haijun

Chairman

Hebei, 19 April 2024

MANAGEMENT DISCUSSION AND ANALYSIS



Industrial Review and Analysis

Although the economy in 2023 is still experiencing relatively more unstable and uncertain factors, there are various conditions which are conducive to the development of our national economy, and its economic fundamentals remain positive in the long term. According to the data released by the National Bureau of Statistics, GDP for the year of 2023 increased by 5.2% year-on-year at constant prices.

According to the National Railway Administration, during the whole year of 2023, the fixed asset investments in national railways amounted to RMB764.5 billion, representing a year-on-year increase of 7.5%. As at the end of 2023, the operational mileage of China's railways exceeded 159,000 km, of which 45,000 km were high-speed railways. Since 2023, State Railway Group has coordinated resources available for construction, improved arrangements for construction, strengthened safety and quality control, and

promoted the railway construction in a scientific and orderly manner with a batch of new rail lines being completed and put into operation successively. At the same time, we accelerated the preliminary work of key projects, and started the construction of the Yan'an-Yulin High-speed Railway and the Huangtong-Baise Railway, giving full play to the role of railway construction investment as an impetus to the development.

At the same time, China's urban rail transit construction has maintained momentum of rapid development. According to the China Association of Metros, 299 urban rail transit lines with operational mileage of approximately 9,860 km were put into operation in 55 cities across China as at 31 December 2023. Throughout the year, there were 16 new urban rail transit lines with operational mileage of 581.7 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.

Management Discussion and Analysis (Continued)

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 2023, total revenue of the Group amounted to approximately RMB1,196.1 million, representing a decrease of approximately 4.9%.

Rail Fastening System Products

For the year ended 31 December 2023, the revenue from rail fastening system products amounted to approximately RMB692.2 million, accounting for approximately 57.9% of the Group's total revenue and representing a decrease of approximately 20.5% over the revenue of approximately RMB870.5 million from this segment last year. This was resulted from the decrease in shipments of rail fastening system products due to the construction progress of railways.

During the year under review, the cost of sales relating to rail fastening system products decreased by approximately 28.3% from approximately RMB609.4 million in 2022 to approximately RMB437.1 million in 2023, which was mainly attributable to lower costs resulted from decrease in revenue from rail fastening system products and decrease in price of steel materials during the year under review.

As a result of decrease in revenue from rail fastening system products, gross profit of rail fastening system products decreased by approximately 2.3% from approximately RMB261.1 million in 2022 to approximately RMB255.1 million in 2023. The gross profit margin of rail fastening system products increased from approximately 30.0% in 2022 to approximately 36.9% in 2023 due to the decrease in price of steel materials and change in product structure.



Management Discussion and Analysis (Continued)

During the year under review, the Group's initial value of the agreements entered into on supplying rail fastening systems was approximately RMB1,345.6 million, representing an increase of approximately 14.7% as compared to 2022. Specifically, the initial value of the agreements entered into on supplying high-speed rail fastening systems amounted to approximately RMB986.1 million, representing an increase of approximately 24.5% as compared to 2022; the initial value of the agreements entered into on supplying urban transit fastening systems amounted to approximately RMB224.8 million; and the initial value of the agreements entered into on normal-speed rail fastening systems amounted to approximately RMB134.7 million. As at 31 December 2023, the backlog of the Group amounted to approximately RMB1,730 million (value-added tax included).

Welding Wire Products

For the year ended 31 December 2023, the revenue from welding wire products amounted to approximately RMB382.2 million, accounting for approximately 32.0% of the total revenue of the Group and representing an increase of approximately 22.8% from approximately RMB311.2 million for the year of 2022. The change in revenue was mainly attributable to the increase in sales volume of flux cored wire products during the year under review.

During the year under review, the cost of sales from welding wire products increased by approximately 27.3% to approximately RMB373.8 million in 2023 from approximately RMB293.7 million in 2022, which was mainly attributable to the 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.

Railway Sleeper Products

For the year ended 31 December 2023, the revenue from railway sleeper products was approximately RMB112.9 million, accounting for approximately 9.4% of the Group's total revenue and representing an increase of approximately 64.6% from approximately RMB68.6 million in 2022. The change in revenue was mainly attributable to the expansion of sales area of the Company's railway sleeper products with the Company's development of the railway sleeper market in Southwest China during the year under review.

During the year under review, the cost of sales of railway sleeper products increased by approximately 85.6% from approximately RMB47.9 million in 2022 to approximately RMB88.9 million in 2023, mainly attributable to the increase 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 2023, the revenue of the Group decreased to approximately RMB1,196.1 million from approximately RMB1,258.3 million in 2022, mainly as a result of decrease in revenue from rail fastening system products.

Revenue related to rail fastening system products decreased by approximately 20.5% to approximately RMB692.2 million in 2023 from approximately RMB870.5 million in 2022, which was attributable to the decrease in shipments of rail fastening system products due to the construction progress of railways.

Management Discussion and Analysis (Continued)

Revenue related to welding wire products increased by approximately 22.8% from approximately RMB311.2 million in 2022 to approximately RMB382.2 million in 2023. 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.

Revenue related to railway sleeper products increased by approximately 64.6% from approximately RMB68.6 million in 2022 to approximately RMB112.9 million in 2023. The change in revenue from railway sleeper products was mainly attributable to the expansion of sales area of the Company's railway sleeper products with the Company's development of railway sleeper market in Southwest China during the year under review.

Apart from revenue from sales of rail fastening system products, 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 decreased by approximately 5.3% to approximately RMB904.8 million in 2023 from approximately RMB955.8 million in 2022, which was mainly attributable to the decrease in operating revenue from rail fastening system products during the year under review.

Operating cost related to rail fastening system products decreased by approximately 28.3% to approximately RMB437.1 million in 2023 from approximately RMB609.4 million in 2022, which was mainly attributable to decrease in revenue from rail fastening system products and decrease in price of steel materials during the year under review.

Operating cost related to welding wire products increased by approximately 27.3% to approximately RMB373.8 million in 2023 from approximately RMB293.7 million in 2022, 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 increased by approximately 85.6% to approximately RMB88.9 million in 2023 from approximately RMB47.9 million in 2022, which was mainly attributable to increase 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 RMB291.3 million in 2023, representing a year-on-year decrease of approximately 3.7% as compared to the gross profit of approximately RMB302.5 million in 2022, which was mainly due to the change in product structure.

Gross profit of rail fastening system products decreased by approximately 2.3% from approximately RMB261.1 million in 2022 to approximately RMB255.1 million in 2023, and the gross profit margin increased from approximately 30.0% in 2022 to approximately 36.9% in 2023, which was mainly attributable to the decrease in price of steel materials and change in product structure during the year under review.

Gross profit of welding wire products decreased by approximately 52.0% to approximately RMB8.4 million in 2023 from approximately RMB17.5 million in the same period of 2022. Gross profit margin decreased from approximately 5.6% in 2022 to approximately 2.2% in the same period of 2023, which was mainly because solid core welding wire products were in the promotion stage during the year under review and had lower gross profit.

Gross profit of railway sleeper products increased by approximately 16.0% to approximately RMB23.9 million in 2023 from approximately RMB20.6 million in 2022. Gross profit margin decreased to 21.2% from approximately 30.0% in 2022, which was mainly attributable to the increase in purchase of finished products as the railway sleeper base in Southwest China was still in the process of achieving mass production of products during the year under review.

Management Discussion and Analysis (Continued)

Selling Expenses

Selling expenses of the Group increased to approximately RMB19.8 million in 2023 from approximately RMB18.7 million in 2022. For the years ended 31 December 2022 and 2023, selling expenses as a percentage of total revenue accounted for approximately 1.5% and 1.7%, respectively. The increase in selling expenses was mainly attributable to the increase in travel expenses and business entertainment expenses due to the enhancement of market development during the year under review.

Management Expenses

Management expenses of the Group increased to approximately RMB95.5 million in 2023 from approximately RMB79.7 million in 2022. For the years ended 31 December 2022 and 2023, management expenses as a percentage of total revenue accounted for approximately 6.3% and 8.0%, respectively. The increase in management expenses was mainly due to the increase in depreciation expenses during the year under review.

Research and Development Expenses

Research and development expenses of the Group decreased to approximately RMB33.3 million in 2023 from approximately RMB42.9 million in 2022. The decrease in research and development expenses was mainly due to the decrease in research and development investment for the year under review. For the years ended 31 December 2022 and 2023, research and development expenses as a percentage of total revenue accounted for approximately 3.4% and 2.8%, respectively.

Finance Costs

In 2023, the Group incurred total finance costs of approximately RMB17.5 million, representing a year-on-year decrease of approximately 11.2% as compared to total finance costs of approximately RMB19.7 million in 2022. Under this category, interest income increased by approximately 20.0% to approximately RMB2.4 million in 2023 from approximately RMB2.0 million in 2022. Interest costs decreased by approximately 11.4% to approximately RMB18.7 million in 2023 from approximately RMB21.1 million in 2022. The decrease in finance costs was mainly due to decrease in interest costs during the year under review.

Investment Gains/Losses

In 2023, the Group's investment losses totalled approximately RMB33.5 million while the investment gains totalled approximately RMB41.0 million in 2022, primarily caused by the change (up to the date of disposal) in price of Hong Kong listed company securities disposed during the year under review. The Group recorded an aggregate of approximately RMB34.4 million in share of investment gains from associates and joint ventures in 2023 while the share of investment gains were approximately RMB32.7 million in 2022. The increase in the investment gains recorded from associates and joint ventures was mainly attributable to the increase in net profit of associates during the year under review.

Loss on Credit Impairment

Loss on credit impairment of the Group decreased to approximately RMB36.9 million in 2023 from approximately RMB45.9 million in 2022. For the years ended 31 December 2022 and 2023, loss on credit impairment as a percentage of total revenue accounted for approximately 3.6% and 3.1%, respectively. The decrease in loss on credit impairment was mainly due to the increase in payment recovery during the year under review.

Management Discussion and Analysis (Continued)

Impairment Loss of Assets

Impairment loss of assets of the Group decreased to approximately RMB18.9 million in 2023 from approximately RMB37.6 million in 2022. For the years ended 31 December 2022 and 2023, impairment loss of assets as a percentage of total revenue accounted for approximately 3.0% and 1.6%, respectively. The decrease in impairment loss of assets was primarily due to the decrease in impairment loss of goodwill during the year under review.

Total Profit

Based on the aforesaid reasons, the Group recorded operating profit of approximately RMB50.1 million in 2023, representing a year-on-year decrease of approximately 72.7% as compared to operating profit of approximately RMB183.4 million recorded in 2022, which was mainly attributable to the change (up to the date of disposal) in price of Hong Kong listed company securities disposed of during the year under review.

Income Tax

Income tax expenses of the Group decreased to approximately RMB-0.2 million in 2023 from approximately RMB21.3 million (restated) in 2022, which was mainly attributable to decrease in total profit during 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 2023. The applicable tax rates for other subsidiaries in Mainland China were 20% and 25% for 2023.

Net Profit

Based on the aforesaid reasons, the net profit decreased by approximately 69.0% from RMB162.1 million (restated) in 2022 to approximately RMB50.3 million in 2023. Net profit margin decreased to approximately 4.2% for the year under review from approximately 12.9% for the year ended 31 December 2022, which was mainly attributable to the change (up to the date of disposal) in price of Hong Kong listed company securities disposed of 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 RMB49.4 million in 2023, representing a decrease of approximately 69.3% from approximately RMB161.0 million (restated) in 2022. In 2023, basic earnings per share amounted to approximately RMB0.06, representing a decrease from that of 2022.

Financial Resources and Capital Structure

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB90.1 million, accounts receivable of approximately RMB1,188.9 million, accounts payable of approximately RMB350.3 million, and outstanding borrowings of approximately RMB506.7 million. As at 31 December 2023, the above cash and cash equivalents included approximately RMB0.7 million equivalents of Hong Kong dollars.

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.

* For identification purpose only

Management Discussion and Analysis (Continued)

The Group usually satisfies its daily working capital requirements through self-owned cash and borrowings. In December 2016, the Company completed its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and issued a total of 224,460,000 H Shares. As at 31 December 2023, the outstanding borrowings of the Group included total short-term borrowings of approximately RMB198.1 million, total non-current liabilities of approximately RMB158.3 million due within one year and total long-term borrowings of approximately RMB150.3 million. The Group will promptly repay the aforesaid borrowings when due.

Total Assets

As at 31 December 2023, the total assets of the Group were approximately RMB3,439.1 million, representing a decrease of approximately RMB156.2 million or approximately 4.3% from those as at 31 December 2022, which was mainly attributable to the decrease in bank borrowings at the end of the year.

Total Liabilities

As at 31 December 2023, the total liabilities of the Group were approximately RMB960.3 million, representing a decrease of approximately RMB161.7 million or approximately 14.4% from those as at 31 December 2022, mainly because of the decrease in bank borrowings at the end of the year.

Total Equity

As at 31 December 2023, the total equity of the Group was approximately RMB2,478.8 million, representing an increase of approximately RMB5.5 million from that as at 31 December 2022, which was mainly attributable to increase in earning balance of the Group during the year under review.

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 2023, the Group's gearing ratio was 14.4%, representing a decrease of 3.0% percentage points as compared to 17.4% as at 31 December 2022, which was mainly attributable to decrease in total borrowings at the end of the year.

For details of credit risk, liquidity risk, interest risk and foreign exchange risk, please refer to Note IX to the Financial Statements.

Charges on Assets

As at 31 December 2023, the Group did not have any charges on its assets.

Contingent Liabilities

For details of contingent liabilities, please refer to Note XII to the Financial Statements.

Employees, Remuneration Policies and Pension Schemes

As at 31 December 2023, the Group incurred total staff costs of approximately RMB107.1 million for 1,300 employees, representing a decrease of approximately RMB1.9 million or approximately 1.8% as compared to the same period of 2022, which was mainly attributable to the decrease in the number of employees during the year under review.

Management Discussion and Analysis (Continued)

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.

In addition, in order to recognise and acknowledge the contributions which the employees have made or may make to the Group, the Company has adopted a share award scheme under which the Board may grant awards of H Shares to any full-time employee of the Group in accordance with the rules of the share award scheme. For further information, please refer to the section headed "H Share Award Scheme" below.

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 2023 (2022: 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 2023 (2022: 8%). Upon reaching the statutory retirement age, the employee will receive a basic pension on a monthly basis. For the year ended 31 December 2023, the basic pension insurance premium paid by the Group amounted to approximately RMB9.7 million (2022: RMB9.3 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 2023, the Group had no defined benefit plan.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Haijun (張海軍), aged 71, 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 54, 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.

* For identification purpose only

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

Mr. Zhang Lihuan (張力歡), aged 41, 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 January 2023 and was appointed as a Director on 27 July 2015. He has been serving as the general manager of Hebei Yichen Welding Co., Ltd. (河北翼辰焊業有限公司) since 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 38, 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 42, 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 39, 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.

* For identification purpose only

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

Mr. Jip Ki Chi (葉奇志), aged 54, 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 Sunny Side Up Culture Holdings Limited (formerly known as Yeah Yeah Group Holdings 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 63, 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 66, 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.

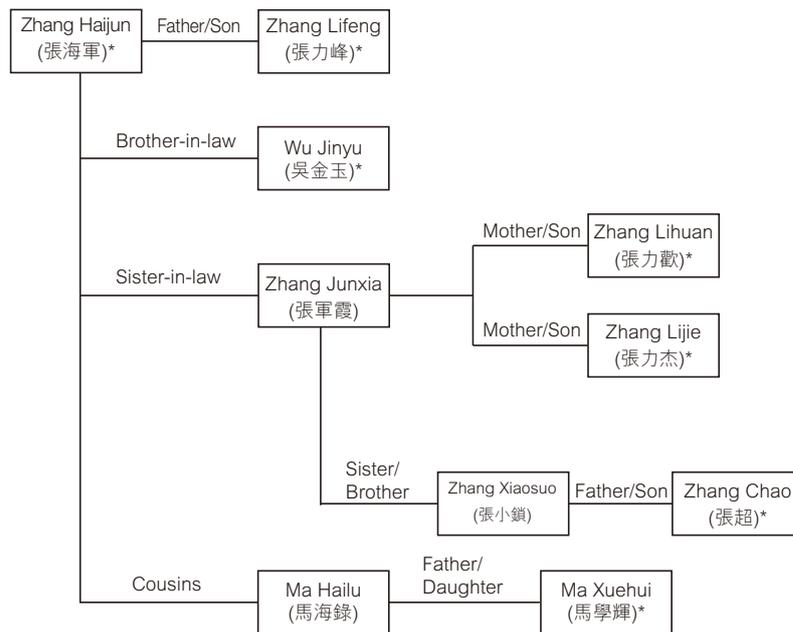
Since December 2017, Mr. Zhang has been the independent director of Zhejiang Tiantie Industry Co., Ltd. (浙江天鐵實業股份有限公司) (the shares of which are listed on the ChiNext of the Shenzhen Stock Exchange, stock code: 300587). From April 2018 to April 2022, Mr. Zhang was a special expert of CCCC Railway Consultants 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).

* For identification purpose only

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 36, 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 46, 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 47, 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 January 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 43, 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 70, 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 44, 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 64, 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.

* For identification purpose only

REPORT OF THE BOARD OF DIRECTORS

PRINCIPAL BUSINESS

For the year ended 31 December 2023, the Company is principally engaged in research and development, manufacturing and sales of rail fastening system products, welding wire products and railway sleeper products.

SHARE CAPITAL

As at 31 December 2023, 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 2023 are set out in Note V(l) 34 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 2023.

DEBENTURES IN ISSUE

The Company did not have any debentures in issue for the year ended 31 December 2023.

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 2023.

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 is 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 2023, the Group makes contributions to the Basic Pension Insurance Scheme at a fixed rate of 16% of the contribution base (2022: 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 2023, employees are required to make contributions at a fixed rate of 8% of the contribution base to the Basic Pension Insurance Scheme (2022: 8%). After reaching the statutory retirement age, employees will receive a basic pension on a monthly basis. For the year ended 31 December 2023, the Group’s contributions to basic pension premiums amounted to approximately RMB9.7 million (2022: RMB9.3 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 2023.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group strives to build and maintain long term and strong relationships with customers. The Company’s business department conducts customer satisfaction surveys from time to time 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 2023, 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.

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 2023, 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.

Report of the Board of Directors (Continued)

Future Prospects

According to the working meeting of State Railway Group in 2024, priorities will be maintaining railway safety and stability, and completing the national railway investment task in an all-round manner. More than 1,000 km of new lines will be put into operation.

A leaders and cadres meeting of State Railway Group was held in Beijing on 17 July 2023. According to the State Railway Group, the railway department will, making reference to the requirements put forward at the work meeting of State Railway Group and the deployment requirements of the leading Party members groups, focus on the targeted goals, fulfill responsibilities, move ahead steadily and make efforts in order to complete the annual targets and tasks in all aspects and to ensure the spirit of the 20th National Congress of the CPC and the deployment resolved by the CPC Central Committee are carried out in state railway enterprises, taking solid actions to bravely serve as a “locomotive” that supports the Chinese modernisation.

As a leading rail fastening system and railway sleeper provider in the railway industry of China, the Group will seize the market development opportunities, 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 the implementation of railway-related projects under the 102 key construction projects identified by the Outline of the national “14th Five-Year Plan”, making our contribution 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.

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the “AGM”) will be held on Thursday, 30 May 2024. Shareholders may refer to the circular, notice and form of proxy of the AGM issued by the Company for details regarding the meeting.

FINAL DIVIDEND

The Board resolved to recommend the payment of a final dividend of RMB0.010024 per Share (tax inclusive) for the year ended 31 December 2023 (the “2023 Final Dividend”) with an aggregate net amount of RMB8,999,948 to the Shareholders whose names appear on the Company’s register of members as at Friday, 7 June 2024, subject to the approval by the Shareholders at the forthcoming AGM to be held on Thursday, 30 May 2024. Subject to the passing of the relevant resolution at the AGM, the 2023 Final Dividend is expected to be paid on or around 25 July 2024.

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’ interests, 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 the tax laws and relevant requirements under taxation regulatory institutions of the PRC, the Company is required to withhold 10% enterprise income tax when it distributes the 2023 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 Friday, 7 June 2024.

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 2023 Final Dividend pursuant to the register of members of domestic corporate investors as holders of H shares of the Company as at Friday, 7 June 2024 provided by China Securities Depository and Clearing Corporation Limited ("**CSDC**"), the Company shall not withhold income tax on dividends for domestic corporate investors. The tax payable shall be reported and paid by the enterprises themselves.

Pursuant to the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》), the Implementation Regulations of the PRC Individual Income Tax Law (《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 Policy (《滬港通稅收政策》) and other relevant laws and regulations and based on the Company's consultation with the relevant PRC tax authorities, the Company is required to withhold and pay 20% of 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 2023 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 Friday, 7 June 2024 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” 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 the relevant preferential tax treatment pursuant to the provisions on the tax treaties between the countries where they reside and China and the tax arrangements between Mainland China and Hong Kong (Macau). 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 on Friday, 7 June 2024 (the “**Registered Address**”). The Company assumes no responsibility and disclaims any 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 Macau 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 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 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 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 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 final dividend.

Report of the Board of Directors (Continued)

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 Tuesday, 4 June 2024. Upon examination of the supporting documents by the 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 may 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 Non-residents 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 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, 30 May 2024, the register of members of the Company will be closed from Monday, 27 May 2024 to Thursday, 30 May 2024 (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, 30 May 2024 are entitled to attend and vote at this AGM. Holders of H shares of the Company intending 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, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 24 May 2024 (Hong Kong time) for share transfer registration.

In order to determine the list of Shareholders who are entitled to the 2023 Final Dividend, the register of members of the Company will be closed from Wednesday, 5 June 2024 to Friday, 7 June 2024 (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 Friday, 7 June 2024 are entitled to the 2023 Final Dividend. Holders of H shares of the Company intending to receive the 2023 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, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 4 June 2024 (Hong Kong time) for share transfer registration.

Report of the Board of Directors (Continued)

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 2023, 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 2023, the sales revenue from our five largest customers and the largest customer represented 46.40% and 19.83% of the Group’s operating revenue, respectively.

During such period, the procurement expenses to our five largest suppliers and the largest supplier represented 36.17% and 11.57% of the Group’s total procurement expenses, respectively.

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 2023, the construction of production workshop and the main warehouse in our new production facilities had been completed, relevant production equipment was already being installed and debugged, and some production workshops had commenced operation. The main structure 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 2023 are set out in Notes V(l) 22, 29 and 31 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2023, the Company had distributable reserves denominated in Renminbi of approximately RMB1,046.9 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 2023, 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 V(l) 13, 14 and 16 to the consolidated financial statements.

Report of the Board of Directors (Continued)

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 2023.

The Group had no significant investment held during the year ended 31 December 2023.

The Group did not have any future plans for material investments or capital assets as at the date of this report.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the year ended 31 December 2023, 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 is 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, the term of office of Mr. Wang Fujun and Ms. Zheng Zhixing commenced from 31 May 2022 and 13 September 2022, respectively, and the term of office of all other Directors 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 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.

DIRECTORS’, SUPERVISORS’ AND SENIOR MANAGEMENT’S REMUNERATION

Details of remuneration of Directors and Supervisors of the Company for the year ended 31 December 2023 are set forth in Note XI(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.

Report of the Board of Directors (Continued)

The distribution of remuneration of senior management (other than Directors and Supervisors as disclosed in Note XI(II) 4 to the consolidated financial statements) for the year ended 31 December 2023 is as follows:

Remuneration bands	Number of individuals
RMB100,001 to RMB200,000	2
RMB200,001 to RMB300,000	0
RMB300,001 to RMB400,000	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.

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 subsidiaries.

INTEREST OF DIRECTORS IN COMPETING BUSINESS AND CONFLICT OF INTERESTS

During the year of 2023, 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 2023, 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 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 (b) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code (including those they were taken or deemed to have under such provisions of the SFO) were 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 is 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 2023, 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 2023, 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 were 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	31,376,000	13.98%	3.49%
Ms. Zhang Zimo (張紫墨) (“Ms. Zhang”) (Note 18)	H Shares	Interest of spouse	31,376,000	13.98%	3.49%
Mr. Li Yanhao (李艷浩) (“Mr. Li”) (Note 18)	H Shares	Interest of controlled corporation	31,376,000	13.98%	3.49%
Ms. Feng Dasha (封達莎) (“Ms. Feng”) (Note 18)	H Shares	Interest of spouse	31,376,000	13.98%	3.49%
Vistra Trust (Singapore) Pte. Limited (Note 18)	H Shares	Trustee	31,376,000	13.98%	3.49%
Cyber Warrior Holdings Limited (Note 18)	H Shares	Interest of controlled corporation	31,376,000	13.98%	3.49%
Brainstorming Cafe Limited (Note 18)	H Shares	Interest of controlled corporation	31,376,000	13.98%	3.49%
Flowing Cloud Technology Ltd (Note 18)	H Shares	Beneficial owner	31,376,000	13.98%	3.49%
Beijing Infrastructure Investment Co., Ltd. (Note 19)	H Shares	Interest of controlled corporation	38,102,000	16.97%	4.24%
Beijing Infrastructure Investment (Hong Kong) Limited (Note 19)	H Shares	Beneficial owner	38,102,000	16.97%	4.24%
Shijiazhuang State-owned Holding Investment Group Company Limited (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 31,376,000 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 be interested 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 Beijing Infrastructure Investment (Hong Kong) Limited, which is wholly owned by Beijing Infrastructure Investment Co., Ltd.* (北京市基礎設施投資有限公司). Under the SFO, Beijing Infrastructure Investment Co., Ltd. is deemed to be interested in the H Shares beneficially owned by Beijing Infrastructure Investment (Hong Kong) Limited.
- (20) These 20,300,000 H Shares are held by GUOKONG (HONG KONG) INVESTMENT CO., LIMITED, which is wholly owned by Shijiazhuang State-owned Holding Investment Group Company Limited (石家莊國控投資集團有限責任公司). Under the SFO, Shijiazhuang State-owned Holding Investment Group Company Limited is deemed to be interested in the H Shares beneficially owned by GUOKONG (HONG KONG) INVESTMENT CO., LIMITED.

Save as disclosed above, as at 31 December 2023, 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 were 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 and 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 Company adopted an H share award scheme (the “**Scheme**”) 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 (i) any direct or indirect holding company of the Company or (ii) any direct or indirect subsidiary of the Company who is not a connected person (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 and 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 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 granted, become vested, been cancelled or lapsed 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.

Please refer to the circular of the Company dated 18 August 2022 for further details.

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 2023.

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*)**CONTINUING CONNECTED TRANSACTIONS**

For the year ended 31 December 2023, the Company had conducted the following continuing connected transactions:

On 1 November 2023, Hebei Chenteng Power Sales Co., Ltd.* (河北辰騰售電有限公司) (“**Hebei Chenteng**”) as supplier and the Company as consumer entered into the high voltage electricity supply contract (“**Electricity Purchase Agreement**”), pursuant to which Hebei Chenteng shall supply electricity to the Company for a term of three years from 1 November 2023 to 31 October 2026. The Directors expected that the aggregate amount of the consideration payable by the Company to Hebei Chenteng in connection with the purchase of electricity under the Electricity Purchase Agreement would not exceed RMB5 million for the year ending 31 December 2023 (applicable to the period from 1 November 2023 to 31 December 2023), RMB30 million for the year ending 31 December 2024, RMB30 million for the year ending 31 December 2025, and RMB25 million for the year ending 31 December 2026 (applicable to the period from 1 January 2026 to 31 October 2026).

Hebei Chenteng shall charge for the supply of electricity based on the records of the electricity meters, and the electricity charges approved by the price administration department and/or other governmental authority(ies) or the electricity charges formed in accordance with the price for purchase of electricity by Hebei Chenteng from the market. The electricity charges shall include relevant fees to be charged alongside charges for electricity supply as prescribed by the state. During the term of the Electricity Purchase Agreement, the electricity charges and the rate of other applicable fees shall be subject to adjustment in accordance with the policies that may be issued by the relevant governmental authorities from time to time (if any). Based on the amount of electricity consumed as recorded by the electricity meters and the electricity charges per unit determined based on the mechanism as set out in the announcement of the Company dated 1 November 2023, payment shall be made by the Company to Hebei Chenteng on a monthly basis.

As a manufacturing business of an established operating scale, the Company considers a stable supply of electricity to be of the utmost importance given that it is instrumental in securing the uninterrupted operation of the Company’s production lines and other business functions. By entering into the Electricity Purchase Agreement, the Company would be assured of a reliable electricity supply over a three-year term at rates determined through a standard pricing mechanism that accords with the relevant local laws and regulations and the market practice. In addition, Hebei Chenteng has received approval for its incremental distribution network and has been authorised to carry out distribution and electricity sales businesses within its approved operating area, which covers the site of operations of the Company. Hebei Chenteng is therefore the authorised electricity supplier of the Company. Hebei Chenteng will also be in a position to provide the Company with prompt replies and assistance and, where necessary, onsite troubleshooting and support in connection with matters concerning electricity supply and consumption. From an operational perspective, it is advantageous to the Company to procure the supply of electricity from Hebei Chenteng.

As at the date of the Electricity Purchase Agreement, Hebei Chenteng was owned as to 80% by Hebei Chenxiang Power Sales Co., Ltd.* (河北辰翔售電有限公司), which was in turn owned as to an aggregate of approximately 78.19% by the Controlling Shareholders. As a 30%-controlled company and hence an associate of the Controlling Shareholders, Hebei Chenteng was a connected person of the Company. The transactions contemplated under the Electricity Purchase Agreement constituted continuing connected transactions under Chapter 14A of the Listing Rules.

During the period from 1 November 2023 to 31 December 2023, the aggregate amount of the consideration payable by the Company to Hebei Chenteng in connection with the purchase of electricity under the Electricity Purchase Agreement amounted to approximately RMB3.81 million.

For details, please refer to the announcement of the Company dated 1 November 2023.

Report of the Board of Directors *(Continued)*

Confirmation of Independent Non-Executive Directors

The independent non-executive Directors had reviewed the abovementioned continuing connected transactions and confirmed the transactions were conducted:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms, or if the comparable transactions could not be relied on to judge whether the terms of the transactions were normal commercial terms, as far as the Group is concerned, on terms no less favourable than the terms accepted or provided by independent third parties; and
- (3) in accordance with the terms of agreement related to the transactions, which were fair and reasonable and in the interests of shareholders of the Company as a whole.

Confirmation of Auditors

The Company's external auditor was engaged to report on the Group's continuing connected transactions in accordance with the "Assurance Engagements other than Audits or Reviews of Historical Financial Information" of Hong Kong Standard on Assurance Engagements 3000 (Revised) issued by the Hong Kong Institute of Certified Public Accountants and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules". The Board hereby confirmed that, the auditors have issued their letter containing their findings and conclusions in respect of the abovementioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules, in which the auditors confirmed to the Company that nothing has come to their attention that causes them to believe that the continuing connected transactions (1) have not been approved by the Board, (2) were not conducted, in all material respects, in accordance with the relevant agreement governing the transactions, or (3) have exceeded the cap.

RELATED PARTY TRANSACTIONS

Save for the transactions disclosed in the section headed "Continuing Connected Transactions" above, none of the related party transactions conducted by the Group during the year ended 31 December 2023 as disclosed in note 11 to the financial statements constituted a connected transaction or continuing connected transaction that was not fully exempt from all disclosure, shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to those transactions conducted by the Group during the year ended 31 December 2023 that were not exempt from the 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.

Report of the Board of Directors (Continued)

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 C1 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 2023 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 at 31 December 2023, 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 2023, the Group had sold welding wire products to two customers in sanctioned countries, namely Russia and Turkey, amounting to approximately 0.14% 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.

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.

Report of the Board of Directors *(Continued)*

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 2023 prepared in accordance with the PRC Accounting Standards.

CHANGES IN THE INFORMATION OF DIRECTORS AND SUPERVISORS

There is no changes in the information of Directors and Supervisors that is required to be disclosed in this section pursuant to Rule 13.51B (1) of the Listing Rules.

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 2023 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 2023 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 2023 is set out on page 4 of this annual report.

By Order of the Board

Zhang Haijun

Chairman

Hebei, China

19 April 2024

REPORT OF SUPERVISORY BOARD

In 2023, 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 2022’” (《關於審議《2022年度業績公告草稿》的議案》), “Resolution on the Consideration of the ‘Draft of Annual Report for the Year 2022’” (《關於審議《2022年度年報草稿》的議案》), “Resolution on the Consideration of the ‘Report of Supervisory Board for the Year 2022’” (《關於審議《2022年度監事會報告》的議案》), “Resolution on the Consideration of the ‘Corporate Governance Report for the Year 2022’” (《關於審議《2022年度企業管治報告》的議案》), “Resolution on the Consideration of the ‘ESG Report for the Year 2022’” (《關於審議《2022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 2022’” (《關於審議《河北翼辰實業集團股份有限公司2022年度利潤分配》的議案》) were deliberated and approved by the fourth meeting of the third session of the Supervisory Board convened on 23 March 2023.
2. “Resolution on the Consideration of the ‘Draft of Interim Report and Draft of Interim Results Announcement for the Year 2023’” (《關於審議《2023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 2023’” (《關於審議《2023年度中期利潤分配》的議案》) were deliberated and approved by the fifth meeting of the third session of the Supervisory Board convened on 24 August 2023.

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 2023, 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 at 31 December 2023 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 2023.

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

27 March 2024

CORPORATE GOVERNANCE REPORT

The Board (the “**Board**”) of Directors (the “**Directors**”) is pleased to report to the shareholders on the corporate governance of the Company for the year ended 31 December 2023.

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 (the “**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 C1 to 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 C1 to the Listing Rules.

In the opinion of the Directors, throughout the year ended 31 December 2023, 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 C3 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 2023.

Corporate Governance Report (Continued)

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 responsible 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 and take decisions objectively in the best interests of the Company from time to time.

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 Director

Ms. Zheng Zhixing

Independent Non-executive Directors

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

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 27 December 2023.

Corporate Governance Report (Continued)

During the year ended 31 December 2023, the Board held 7 meetings and the Directors' attendance records are as follows:

Name of Directors	Attendance
Mr. Zhang Haijun (<i>Chairman</i>)	7/7
Mr. Wu Jinyu	7/7
Mr. Zhang Chao	7/7
Mr. Zhang Lihuan	7/7
Ms. Ma Xuehui	7/7
Ms. Zheng Zhixing	7/7
Mr. Jip Ki Chi	7/7
Mr. Zhang Liguo	7/7
Mr. Wang Fujun	7/7

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 2023, 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.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism which sets out the processes and procedures to ensure independent views and input are available to 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 2023, 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 2023, the Board reviewed the implementation and effectiveness of the Board Independence Evaluation Mechanism and the results were satisfactory.

Corporate Governance Report (Continued)

Appointment and Re-election of Directors

Pursuant to Article 5.2 of the Articles of Association of the Company, Directors shall be elected or changed at Shareholders' general meetings, and the shareholders' general meeting may dismiss their positions prior to the expiration of their terms of office. The term of office of Directors is three years. Upon the expiration of the term of office, Directors shall be eligible to offer themselves for re-election.

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 5.2 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.

Corporate Governance Report (Continued)

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.

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 2023 are summarized as follows:

Directors	Type of Training ^{Note}
Executive Directors	
Mr. Zhang Haijun	A, B
Mr. Wu Jinyu	A
Mr. Zhang Chao	A
Mr. Zhang Lihuan	A
Ms. Ma Xuehui	A, B
Non-executive Director	
Ms. Zheng Zhixing	A
Independent Non-executive Directors	
Mr. Jip Ki Chi	A, B
Mr. Zhang Liguó	A, B
Mr. Wang Fujū	A, 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.

Corporate Governance Report (Continued)

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.

The functions and power of the Supervisory Board

The Supervisory Board exercises the following functions and powers:

- To review and express its review comments in writing on regular reports prepared by the Board
- To review the Company's financial position
- To supervise the Directors and senior management in their act during exercise of the Company's powers and make recommendations on removal of Directors and senior management members who are in violation of laws, administrative regulations, the Articles of Association or resolutions of the Shareholders' general meeting
- To demand the Directors and senior management members of the Company to rectify their error if the Directors and senior management members have acted in a manner harmful to the Company's interest
- To propose the convening of extraordinary general meetings and to convene and preside over Shareholders' general meetings in the event that the Board fails to perform its duties in convening and presiding over Shareholders' general meeting under the PRC Company Law
- To make proposals to the Shareholders' general meetings
- To propose to convene extraordinary meetings of the Board
- To attend meetings of the Board in a non-voting capacity and to question or advise upon the matters to be resolved by the Board
- To sue the Directors or senior management members according to Article 151 of the PRC Company Law
- to conduct an investigation of any abnormality identified in the operations of the Company and, when necessary and at the expense of the Company, engage such professional organizations as accounting firm or law firm, etc, to assist in the investigation
- other powers stipulated by laws, administrative regulations, the Hong Kong Listing Rules or these Articles

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.

Corporate Governance Report (Continued)

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 Liguu 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

The Audit Committee held two meetings to review, in respect of the interim financial results and reports as at 30 June 2023, the annual financial results and reports as at 31 December 2022 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 2023.

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. Zhang Liguu	2/2
Mr. Wang Fujun	2/2

Corporate Governance Report (Continued)

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 Liguu. Mr. Zhang Liguu 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 two 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 and other related matters.

Details of the remuneration of the senior management by band are set out in Note XI(II) 4 to the consolidated Financial Statements for the year ended 31 December 2023.

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 Liguu (<i>Chairman</i>)	2/2
Mr. Jip Ki Chi	2/2
Mr. Wu Jinyu	2/2

Corporate Governance Report (Continued)

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 Fujun and Mr. Zhang Ligu. Mr. Wang Fujun 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 once 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.

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

Name of Members of the Nomination Committee	Attendance
Mr. Wang Fujun (<i>Chairman</i>)	1/1
Mr. Wu Jinyu	1/1
Mr. Zhang Ligu	1/1

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.

Corporate Governance Report (Continued)

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

Gender

Male: 7 Directors

Female: 2 Directors

Age Group

31-40: 2 Directors

41-50: 2 Directors

51-60: 2 Directors

Above 60: 3 Directors

Designation

Executive Directors: 5 Directors

Non-executive Directors: 1 Director

Independent Non-executive Directors: 3 Directors

Educational Background

Business Administration: 1 Directors

Account and Finance: 3 Directors

Other: 5 Directors

Nationality

Chinese: 8 Directors

Hong Kong, China: 1 Director

Business Experience

Accounting & Finance: 3 Directors

Experience Related To The Company's Business: 2 Directors

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.

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	33.6% (433)	66.4% (854)
Overall workforce	33.5% (435)	66.5% (865)

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.

In order to build a pipeline of potential successors for the Board to increase gender diversity on the Board in the upcoming years, the Group will also proactively provide trainings to our senior managements to create an inclusive workplace and may also work with human resources firms to identify potential successors for the Board.

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.

Corporate Governance Report (Continued)

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.

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.

Corporate Governance Report (Continued)

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
- To review and monitor the training and continuous professional development of Directors and senior management
- 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 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

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 2023, 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 Fujun	1/1

Corporate Governance Report (Continued)

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 Liguu. 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 (Chairman)	2/2
Mr. Wu Jinyu	2/2
Mr. Zhang Liguu	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.

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.

Corporate Governance Report (Continued)

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.

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 2023. The Board has reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the year ended 31 December 2023, 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.

Corporate Governance Report (Continued)

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.

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.

Corporate Governance Report (Continued)

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 2023.

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 2023, 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.

AUDITORS' REMUNERATION

The Company has appointed Pan-China Certified Public Accountant LLP as the auditor of the Company's 2023 consolidated financial statements prepared under China Accounting Standards for Business Enterprises.

The remuneration for the year ended 31 December 2023 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

Ms. Ng Wai Kam, a senior manager of Tricor Services Limited (an external service provider), has been appointed as the Company's company secretary who meets the requirements of a company secretary under Rule 3.28 of the Listing Rules. 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.

Corporate Governance Report (Continued)

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 individually or jointly holding more than 10% of Shares 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.

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.

Corporate Governance Report (Continued)

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 ongoing 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 2023, the Company held the annual general meeting, the H Share class meeting, and the Domestic Share class meeting on 25 May 2023, a special resolution was proposed at each of the meetings for the proposed amendments to the Articles of Association of the Company.

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
Mr. Zhang Haijun	1/1
Mr. Wu Jinyu	1/1
Mr. Zhang Chao	1/1
Mr. Zhang Lihuan	1/1
Ms. Ma Xuehui	1/1
Ms. Zheng Zhixing	1/1
Mr. Jip Ki Chi	1/1
Mr. Zhang Liguao	1/1
Mr. Wang Fujun	1/1

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.

Corporate Governance Report (Continued)

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. Pursuant to the amended Rule 2.07A of the Listing Rules regarding the expansion of paperless listing regime and electronic dissemination of corporate communications that came into effect on 31 December 2023, the Company has adopted electronic dissemination of Corporate Communications, and only send Corporate Communications in printed form to the Shareholders upon request. The Corporate Communication of the Company will be published on the Stock Exchange’s website (www.hkex.com.hk) and the Company’s website (<http://hbyc.com.cn>), in both English and Chinese versions or where permitted, in a single language, in a timely manner as required by the Listing Rules.

(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.

(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.

Corporate Governance Report (Continued)

(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 amended its Articles of Association.

At each of the annual general meeting, the H Share class meeting and the Domestic Share class meeting of the Company held on 25 May 2023, the Shareholders passed a special resolution to approve the proposed amendments to the Articles of Association of the Company.

Details of the amendments are set out in the supplemental circular to the Shareholders dated 10 May 2023.

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.

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 2023, 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 is the eighth Environmental, Social and Governance Report (the “**ESG Report**”) issued by the Group, which has been prepared in accordance with the “Environmental, Social and Governance Reporting Guide” (the “**Guide**”) set out in Appendix C2 to the Rules Governing the Listing of Securities (“**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 and its subsidiaries (hereinafter referred to as “**we**”, “**us**”, “**our**”, the “**Company**”, the “**Group**”) other than our financial results. Both Chinese and English versions of this report are available on the Company’s website (<http://hbyc.com.cn>) under the page of Investor Relations – Financial Reports and the Stock Exchange’s website (<http://www.hkexnews.hk>). In the event of any inconsistency between the Chinese and English versions, the Chinese version shall prevail.

The report covers the period from 1 January 2023 to 31 December 2023 (the “**Reporting Period**”) and sets forth the information on the Company’s ESG management guidelines and strategies. To enhance comparability, part of the contents relate to previous financial years. The scope of the ESG Report is selected in compliance with the requirements of the Guide 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, the welding segment engaged in the design and manufacturing of welding materials as separated from the headquarters during the year, Xingtai segment engaged in the manufacturing and sales of railway sleeper products, and Shenyang segment engaged in sales.

The Company discloses ESG management performance in accordance with the reporting principles of “materiality”, “quantitative”, “balance” and “consistency” as set out in the Guide of the Stock Exchange. The disclosures comply with the mandatory disclosure requirements and the “comply or explain” requirements of the Guide.

Reporting principles	Our responses
Materiality	The Company identified, assessed and prioritised key ESG issues and made disclosures on ESG matters based on the results of the materiality assessment. These key fields will be illustrated in the section headed “Stakeholders Materiality Assessment” in the ESG Report.
Quantitative	This report adopts a quantitative approach to measure applicable key performance indicators (KPIs) with disclosures presented in a quantifiable format where applicable, and sets quantitative environmental goals. The key performance disclosure is accompanied by an explanation of the methodology of calculation and the sources of the conversion factors used.
Balance	The Company has explained in detail the sustainability issues that have a significant impact on its business, including the work results and the challenges it faces, with an effort to provide an unbiased presentation of the Company’s overall performance in sustainable development.
Consistency	The preparation methods, statistical methods of this report, and measurement standards, methods, assumptions and/or calculation tools and conversion factors used for quantitative data are consistent with those of previous years, and there were no changes that may affect meaningful comparisons with previous reports.

Environmental, Social and Governance Report (Continued)

II. COMPANY BACKGROUND

The Company is a leading rail fastening system provider in China's railway industry. It has over twenty years of experience in providing rail fastening systems, with a well-established quality assurance system and comprehensive inspection and testing methods, and is 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.

Our supply of rail fastening systems covers the whole country, including all the "Eight Vertical and Eight 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. In addition, 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 guideline 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 high-speed railway fastening system integration 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. The Company has obtained a series of certifications and accreditations, including but not limited to the certifications for three systems, namely the ISO 9001:2015 Quality Management System, ISO 14001:2015 Environmental Management System and ISO 45001:2018 Occupational Health and Safety Management System; rail fastening system products have passed the China Railway Product Certification Center CRCC certification; flux cored wire products have been certified by the classification societies in nine countries; the Company's laboratory passed the laboratory accreditation of CNAS in 2016; and the Company has been recognised as a national high-tech enterprise for three times in 2015, 2018 and 2021.

Environmental, Social and Governance Report (Continued)

III. BOARD DECLARATION

The board of directors (the “**Board**”) takes full responsibility for the Company’s ESG strategies and reporting. As the top ESG governance body of the Company, the Board is responsible for formulating the Company’s sustainability management guidelines, strategies and objectives, and establishing and maintaining risk management and internal control systems of ESG. The Board is also responsible for preparing the annual ESG report and overseeing the reporting process. The Company has established the ESG Leading Working Group to assist the Board in providing effective governance and supervision on ESG matters, reviewing the implementation of ESG-related policies and objectives, and identifying ESG risks and opportunities for the Group, and report to the Board on a regular basis.

An ESG working group has been set up under the Leading Working Group, which is responsible for ESG-related data collection and report compilation, maintaining close communication with different departments, identification and analysis of issues that stakeholders may concern, and making regular reports to the ESG Leading Working Group.

We attach great importance to the potential impact of ESG-related risks and opportunities and incorporate the identification and management of ESG-related risks into the Company’s risk management system. The ESG Leading Working Group oversees the assessment of ESG-related risks and opportunities and ensures that appropriate and effective ESG risk management and internal supervision systems are in place.

We have established sustainable development strategies and objectives for the Company, conducted regular assessments of material ESG issues and reported the results to the ESG Leading Working Group for review and assessment, in a bid to provide guidelines for the management in optimising the management system of ESG objectives. The ESG Leading Working Group conducts regular reviews of the ESG objectives and reports to the Board. We have established objectives covering the scope of exhaust gases and greenhouse gases, wastes, energy and water and conducted regular review to strengthen our management of the Company’s environmental performance. We are also committed to have continuous review of the progress of our ESG objectives and any necessary adjustments or improvements thereof in the future to ensure that sustainability issues can be monitored and improved in a more effective way.

This report discloses in detail the progress and effectiveness of the Company’s ESG efforts in 2023, with no false records, misleading statements and material omissions. The Board takes full responsibility for the contents reported in this report. This report was considered and approved at the Board meeting on 19 April 2024.

Environmental, Social and Governance Report (Continued)

IV. ESG GOVERNANCE STRUCTURE

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

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, business or social responsibility, and the results will be presented to and discussed with 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 also provide advice on the Company's ESG strategies based on the results of the assessments and analysis from time to time, while the ESG working group will help to explain the Company's ESG strategies and policies to all functional departments, which could ensure the effective implementation by 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)

V. STAKEHOLDERS MATERIALITY ASSESSMENT

Stakeholder

The Company values, respects and listens to its stakeholders. We have identified seven categories of external and internal stakeholders, comprising governments and regulators, shareholders, customers, suppliers, staff, local communities and media, to effectively safeguard their interests.

We engage in an ongoing, open and transparent conversation with stakeholders through a wide range of communication methods to understand their changing expectations of the Company's business, and open up opportunities to improve our approach to sustainability. During the year, we continued to engage with stakeholders on a regular or ad hoc basis in different ways to ensure effective communication on issues of stakeholders' concern.

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

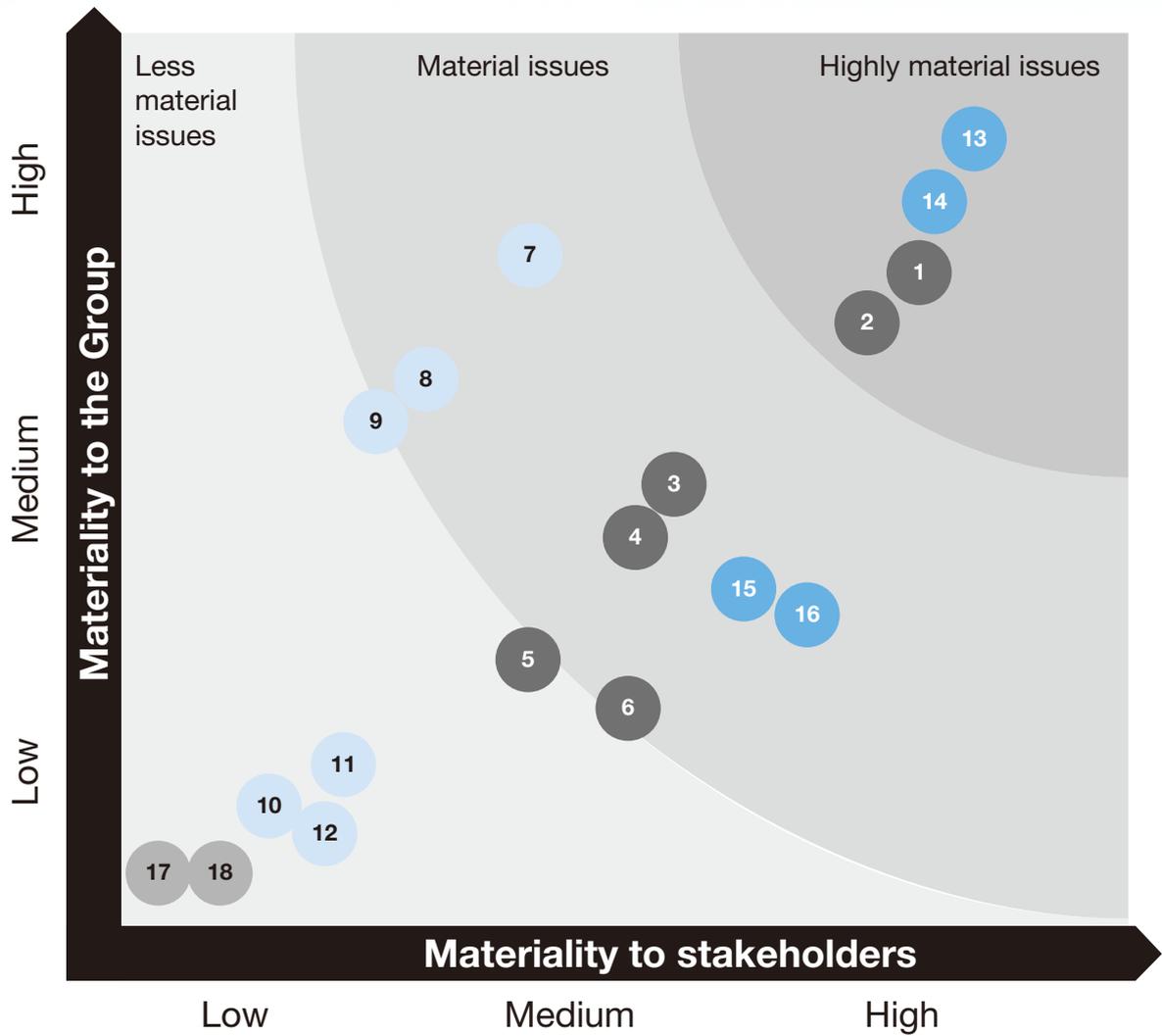
Environmental, Social and Governance Report (Continued)

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 ✧ Annual performance appraisal ✧ 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

The support of stakeholders is the basis for the Company's long-term and sound development. Therefore, we always take into account the expectations and opinions of key internal and external stakeholders. We identify material ESG issues by considering the expectations and opinions of key stakeholders with reference to the Guide of the Stock Exchange. During the year, given no significant change in our stakeholder base, the Company's business and operating environment, the Board, the ESG Leading Working Group and the ESG working group confirmed that the materiality matrix results of last year are still applicable to this year and responsive to the expectations of stakeholders and hence will continue to be used in this year.

Environmental, Social and Governance Report (Continued)



Environment	Employees	Business	Community
<ul style="list-style-type: none"> 1. Energy usage 2. Water resource usage 3. Waste management 4. Air emission 5. Climate change 6. Greenhouse gas emissions 	<ul 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 	<ul style="list-style-type: none"> 13. Compliance operation 14. Product quality and safety 15. Intellectual property rights 16. Supply chain management 	<ul style="list-style-type: none"> 17. Community involvement 18. Public welfare event

Environmental, Social and Governance Report (Continued)

During the Reporting Period, particulars of our work and KPIs as defined in the Guide by the Company, which are considered to be relevant and significant to the Company's operations, will be introduced in the following four subject areas, namely "Building a Home Together with Low Carbon and Environmental-friendly Measures", "Sharing Prosperity with Staff by Adopting People-oriented Principle", "Leading Business Success with Concerted Efforts" and "Joining Hands with the Community in Creating a Common Future".

VI. BUILDING A HOME TOGETHER WITH LOW CARBON AND ENVIRONMENTAL-FRIENDLY MEASURES

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 systems. The railway transit equipment manufacturing industry is not a heavily polluting industry, nonetheless, the Company will still emphasise on the compliance of emission and pollution treatment. The pollutants generated by the Company in production process include wastewater, exhaust gases, solid wastes and noises. We ensure that the discharge of all pollutants is in compliance with the relevant national standards. In addition, the Company has obtained the "Sewage Discharge Permission" (《排污許可證》) issued by the Administrative Approval Bureau of Shijiazhuang E&T Development Zone.

The Company pays close attention to and strictly complies with the requirements stated in the environmental laws and regulations of the PRC and the places where we operate, 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 principles 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 system certification that meets the ISO14001:2015 standard. Furthermore, we also formulated the Energy Management System (《能源管理制度》), which defines the organisational structure and post responsibilities of the Company's energy management, and regulate the consumption, statistical reports, consumption costs and other aspects of energy such as water, electricity and gas, so as to enhance energy efficiency and avoid waste. The efficiency of resource utilisation has been constantly improved by strengthening energy management measures and reducing material consumption.

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

Environmental, Social and Governance Report (Continued)

A1 Aspect: 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)		2023		2022	
Types of air emissions	Sources of emission	Emissions	Density ^(Note 1)	Emissions	Density ^(Note 1)
Nitrogen oxides (NO _x)	<ul style="list-style-type: none"> Natural gas Company's vehicles 	817.23	4.80	743.08	4.09
Sulphur dioxides (SO _x)	<ul style="list-style-type: none"> Natural gas Company's vehicles Tractor shovels 	202.27	1.19	184.10	1.01
Particulate matters (PM) ^(Note 2)	<ul style="list-style-type: none"> Natural gas Company's vehicles 	81.26	0.48	73.93	0.41
Total		1,100.76	6.47	1,001.11	5.51

(Unit: tCO ₂ e) ^(Note 3)		2023		2022	
Scope of greenhouse gas emission	Sources of emission	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 Reduction by planting new trees 	1,174.71	6.91	1,075.90	5.92
Scope 2 Indirect emission	<ul style="list-style-type: none"> Consumption of electricity 	94,084.11	553.08	96,556.18	531.37
Total		95,258.82	559.99	97,632.08	537.29

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, and 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, and one of the forklifts currently owned by the Company is a new energy forklift. All forklifts are equipped with exhaust gas purification devices, and will be regularly maintained to ensure the best fuel efficiency performance. During the year, emissions and the density of Scope 1 increased by 9.18% and 16.63%, respectively, compared to the previous year, mainly due to increased vehicle usage as a result of the economic recovery following the end of the pandemic.

As for the dust generated during the casting process, we will turn on the dust removal fan before using the intermediate frequency stove to ensure the normal operation of the dust removal facilities during the production. We conduct rigorous management and regularly maintain our dust removal facilities to 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 to reduce 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 will also consume 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 94,084.11 tonnes (2022: 96,556.18 tonnes), which was resulted from the use of purchased electricity in supplying power to the electric furnaces, representing a decrease of 2.56% in emissions and an increase of 12.10% 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 774 MWh (2022: 705 MWh) of electricity for the year, representing an increase of 9.68% as compared with last year, with intensity increased by 17.17%.

Environmental, Social and Governance Report (Continued)

The total air and greenhouse gas emissions for the year decreased by 2.43%, with density increased by 12.12% 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% (tCO₂e/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:

Hazardous wastes (Unit: tonnes)	2023		2022	
	Amount generated	Density ^(Note 1)	Amount generated	Density ^(Note 1)
Waste motor oil	6.87	0.04	7.26	0.04
Waste solvent	3.63	0.02	0.97	0.01
Waste activated carbon	2.76	0.02	5.70	0.03
Total	13.26	0.08	0.08	0.08

Non-hazardous wastes (Unit: tonnes)	2023		2022	
	Amount generated	Density ^(Note 1)	Amount generated	Density ^(Note 1)
Waste sand	3,904.20	22.95	6,804.00	37.44
Waste cotton filter	0.01	<0.01	0	0
Oil-containing cloth	0.01	<0.01	0	0
Total	3,904.22	22.95	6,804.00	37.44

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

Environmental, Social and Governance Report (Continued)

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 need activated carbon to enable absorption and desorption processes for treating exhaust gases. This led to the generation of small amount 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, which is conducted in accordance with the Hazardous Waste Harmless Disposal Contract. Waste activated carbon decreased by 51.58%, with density decreased by 48.28% during the year, mainly because the activated carbon of certain environmental protection equipment had not reached its replacement cycle.

Non-hazardous wastes mainly include waste sand, waste cotton filter and oil-containing cloth. Our foundries generate waste sand, which decreased by 42.62%, with density decreased by 38.71% from last year. The significant decrease this year was due to changes in the order structure. In respect of disposal, the Company sells waste sand to recyclers as raw material for brick making to reduce environmental impact. 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 insignificant impact and small amount of such wastes, no statistics are provided herein.

Environmental, Social and Governance Report (Continued)

A2 Aspect: 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:

Energy consumption		2023		2022	
Types of energy	Unit	Amount consumed	Density ^(Note 1)	Amount consumed	Density ^(Note 1)
Electricity	MWh	107,168	629.99	109,895	604.78
Including:					
Purchased electricity	MWh	106,394	625.44	109,189	600.90
Self-generated power ^(Note 2)	MWh	774	4.55	705	3.88
Natural gas ^(Note 3)	m ³	363,648	2,137.73	331,321	1,823.34
Gasoline ^(Note 3)	litres	66,536	391.13	47,952.84	263.90
Diesel ^(Note 3)	litres	79,647.09	468.21	72,843	400.87

Water consumption		2023	2022
	Unit		
Total water consumption	tonnes	20,394	15,716.00
Density ^(Note 1)	tonnes	119.89	86.49

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 5,300.69 MWh of non-renewable fossil fuel was consumed directly, which represented a density of approximately 31.16 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. 363,648 m³ of natural gas was consumed during the year, which represented an increase of approximately 9%, with density increased by 17.24% from last year. Such increase was due to the increase in production volume of Xingtai segment which uses natural gas. Approximately 107,168 MWh of electricity was consumed during the year, representing a decrease of 2.48% in electricity consumption and an increase of 4.17% in density as compared with last year.

Environmental, Social and Governance Report (Continued)

During the year, gasoline consumption increased by 38.75%, with density increased by 48.21%, and diesel consumption increased by 9.34%, with density increased by 16.80%, which was due to the increase in the frequency of vehicle use as business-related travel returned to normal following the recovery of economy after 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 29.77%, with density increased by 38.62% as compared with last year. The increase in water consumption was due to the increase in use of watering cart in factories, resulting in an increase in water consumption such as plant cleansing. 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 sewage 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 treated 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 the above four types of energy efficiency 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 Company's consumption of which during the year and the previous year is as follows:

Consumption of packaging materials (Unit: tonnes) Types	2023		2022	
	Consumption	Density ^(Note 1)	Consumption	Density ^(Note 1)
Paper	1,497.13	8.80	856	4.71
Plastic	1,618.25	9.51	1,593	8.77
Nylon	35.63	0.21	0	0
Total	3,151.01	18.52	2,449	13.48

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

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 Aspect: Environment and Natural Resources

The Company is committed to minimising the impact on the environment and natural resources in its operation. Certain noise may be generated during the construction of projects, which are mainly from machineries, air pumps, sawing machine, etc. Air pumps are set in separate rooms, causing no interference to the outside. Sealed enclosures and sound insulation materials have been in place for workshops, and double-layer soundproof glass is used for windows. These measures help to control noise and result in the compliance of the 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》), thereby minimising the impact on surrounding environment. The Company will continue to implement the strategy of “One Control, Double Target-hits”, and strictly comply with the environmental protection principle of “Three Simultaneous”, i.e., simultaneous consideration of environmental protection measures at each stage of design, construction and production to strengthen the production and environmental management.

Exhaust gas was identified by the Company as the primary source of pollution in the production process. However, the waste from exhaust gas is strictly controlled and transformed after going through an enhanced treatment process as mentioned above. The Company has successfully avoided significant adverse impact on the environment, natural resource and natural ecology.

The Company’s commitment to environmental protection is deeply rooted in its heart and reflected in its actual operation. We actively promote the implementation of environmental policies through the optimisation of production processes, the improvement of production practices and the selection of materials used in production. These environmental policies cover various aspects such as recovery, proper treatment and effective utilisation of wastes as well as substitute materials. These measures aim to prevent, reduce or control the generation of pollutants, minimise the adverse effect on the environment, and at the same time improve the overall economic efficiency of the Company.

Environmental, Social and Governance Report (Continued)

A4 Aspect: Climate Change

The Company pays close attention to the impact of climate change on corporate operation model and business development, actively responds to the “30·60” carbon peaking and carbon neutrality goals, and strictly complies with relevant policies and regulations and implements relevant management measures, so as to further respond to the concerns of the capital market and stakeholders on the issues of climate change.

According to the proposed framework of Task Force on Climate Related Financial Disclosures (the “TCFD”), climate risks mainly include transitional risks and physical risks. Transitional risks relate to the adaptation challenges that companies face in terms of policies, laws, technologies and markets, and physical risks relate to the direct impact of extreme weather events on companies.

The Company established the “Meteorological Disaster Emergency Plan” (《氣象災害應急預案》) in compliance 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 laws and regulations. Based on the principle 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 strictly implements precautionary measures. It is also able to organise accident rescue quickly and effectively to minimise accident losses and ensure the safety of the staff and the facilities and equipment.

The plan has set out a detailed risk factor and risk analysis, defined the responsibilities of each department and the contact details of the emergency duty room. In addition, the Company set up an accident emergency leading group, with the chief commander held by the administrative officer and the deputy chief commander held by the leader in charge of the unit, and established an accident emergency working group with the participation of the heads of all functional management departments and major production departments, to be responsible for the organisation and implementation of accident emergency.

To ensure the effectiveness of Emergency Plan, the emergency leading group organises drills on a regular basis and supervises the performance of responsibilities of each unit in the plan. The Safety and Environmental Protection Office organises relevant departments to compile, revise and change the Emergency Plan, and oversees the implementation of the emergency measures. General Department is responsible for the organisation, deployment and daily inspection of emergency response.

To deal with different cases of emergencies, the emergency group will, depending on the specific circumstances of the emergencies, be in groups to carry out a series of work at the site of the accident such as security maintenance, accident rescue, technical support and accident investigation, ensuring the smooth operation of emergency work.

Environmental, Social and Governance Report (Continued)

Responding to Climate Risks

In response to the increasingly frequent climate events, such as typhoons, floods, forest fires, we incorporate climate-related issues into the Company's risk management procedures, and identify and manage climate change risks, including physical risks and transition risks, with reference to the recommended framework of the TCFD to accelerate the Company's energy-saving and emission-reduction work. The risks we have identified and the response measures are as follows:

Risk	Impact	Response measures	
Physical risk	Extreme weather events	The increasing frequency and severity of extreme weather events (such as typhoon) may damage the Company's facilities and production equipment, leading to increases in costs for repair and maintenance and preventive measures	The Company invested necessary insurance for plant and equipment to reduce the negative impact on the Company due to the increase of cost
		Disruption of the supply chain due to extreme weather events makes suppliers unable to provide products and services to the Company on time and leads to increase in production cost of suppliers. Due to the impact on production line, there is a drop in the production capacity, affecting the income and increasing operation cost	Suppliers of the Company are located in various provinces in the PRC; we have several suppliers of key raw materials to reduce risk
Transition risk	Transition to low-carbon economy	Increasing public awareness to environmental protection and climate issues have stimulated market demand for the use of low-carbon equipment and measures, which may lead to an increase in raw material prices	Long-term and stable cooperative relationships were established with suppliers to ensure a steady supply of raw materials as far as possible; more advanced and environmentally friendly facilities are utilised to reduce energy consumption
	Changes of regulatory requirements	The state and the industry have issued more stringent laws and regulations relating to climate change, resulting in increased compliance costs	We pay attention to and keep abreast of changes in relevant regulations, and conduct corporate governance to ensure business compliance

Environmental, Social and Governance Report (Continued)

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.
- 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, carried out renovation on power grid 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.

Environmental, Social and Governance Report (Continued)

- VI. Effectively utilise the residues of raw and auxiliary materials during the production process, and encourage resource reuse and recycling.
- 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 (2022: nil).

VII. SHARING PROSPERITY WITH STAFF BY ADOPTING PEOPLE-ORIENTED PRINCIPLE

B1 Aspect: Employment

During the year, 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 ensure that the legitimate rights and interests of its employees were fully safeguarded. The Company promoted the principle of equal employment, prohibited any form of employment discrimination, and treated all staff fairly regardless of race, gender and age. Meanwhile, the Company dedicated itself to improving employees' benefits to reinforce their sense of belonging and satisfaction.

In line with the principle of fairness, impartiality and merit-based selection, the Company has 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 regular amendments to adapt to the changing demands, with the human resources department responsible for their implementation and management. In addition, to strengthen the management of labour contracts and safeguard the legitimate rights and interests of the Company and its employees, the Company has formulated the Labour Contract Management Regulations (《勞動合同管理規定》), which covers various aspects of labour contracts including signing, performance, change, renewal, termination or rescission.

Environmental, Social and Governance Report (Continued)

When recruiting new staff, the Company rigorously implemented the verification procedure of ID card to ensure that every employee must be at least 18 years old. Child labour is prohibited. Recruitment channels of the Company are classified into internal recruitment and external recruitment, which are uniformly coordinated and organised by the human resources department.

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, which is competitive and fair. It aims to improve employees' motivation through effective distribution incentives and restraint mechanism. The Company determines the remuneration of its employees based on factors such as their work content and ability, job performance and contribution to the Company. The human resources department is responsible for the amendment, interpretation, implementation and supervision of the organisational policies. The Company's remuneration is designed according to different levels, reflecting the value of positions and individual contribution, and encourages employees on long-term services to work for the continuous growth and sustainable development of the Company and share the accomplishments of its development.

In order to recognise remarkable contributions, the Company has set up bonuses system to reward groups or individuals who have made significant contributions or outstanding performance, and special talents are entitled to enjoy special talent subsidies. In terms of promotion, the Company has established a performance assessment team to study and devise assessment indicators, coordinate disputes arising from assessment and report assessment results to management. The assessment takes place in the principles 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.

Our holiday management follows the Staff Attendance Management Rules (《職工考勤管理細則》) to safeguard employees' rights to rest and leave, including 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 set out normative measures in the rules to protect the interests of female employees during nursing.

The Company offers basic salary, allowances, endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund to its employees, provides holiday gifts, subsidies for employees in need, heatstroke prevention supplies, etc., and establishes a gym in the Company to improve the quality of life of our employees and safeguard their physical and mental health. Furthermore, the Company has in place an incentive scheme to reward employees with child entering university, providing scholarships of RMB3,000 and RMB5,000 to each child who has been enrolled to academy and undergraduate, respectively. Such scheme reflects the Company's concern and support on the staff and their children.

Environmental, Social and Governance Report (Continued)

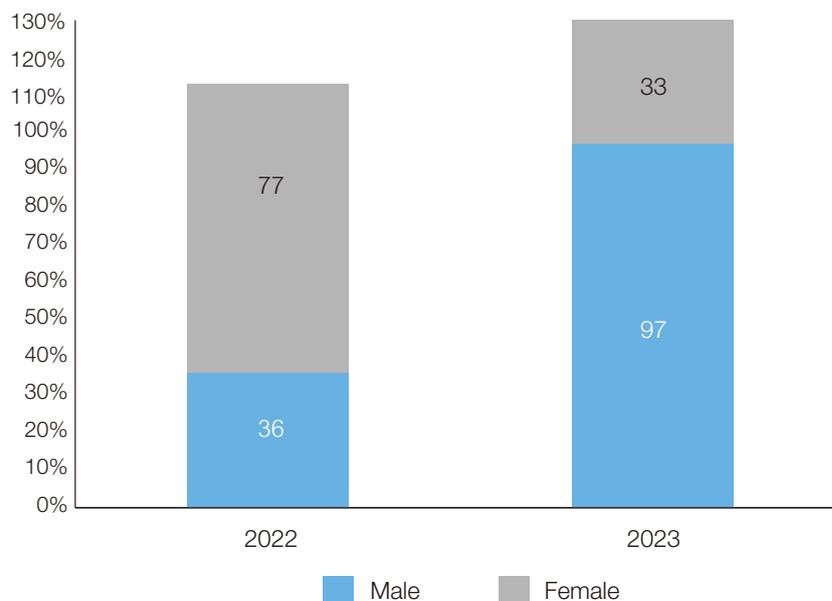
Our Workforce

As at 31 December 2023, the Company had a total of 1,300 employees (2022: 1,365), including 357 employees from our Xingtai, Welding and Shenyang segments. All employees were from China, and all of them were full-time (2022: all employees were from China, and all of them were full-time). The following table illustrates the employee structure categorised by gender, age and position:

Categories	2023	2022
Number of current employees and percentage by gender		
Male	865 (67%)	928 (68%)
Female	435 (33%)	441 (32%)
Number of current employees and percentage by age		
Below 30	103 (8%)	151 (11%)
30 to 50	1,009 (78%)	1,024 (75%)
Above 50	188 (14%)	194 (14%)
Number of current employees and percentage by position		
Senior management	22 (2%)	21 (2%)
Middle management	52 (4%)	45 (3%)
Other employees	1,226 (94%)	1,303 (95%)

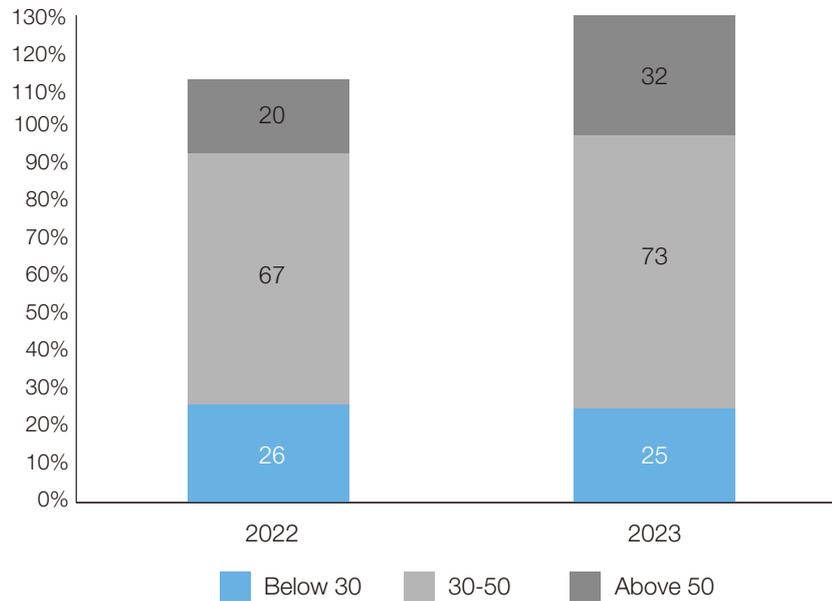
Employee Turnover

As at 31 December 2023, the Company recorded a total of 130 (2022: 113) employees who had left, registering a turnover rate^(Note 1) of approximately 10% (2022: 8%), basically on par with the turnover rate of 2022. 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)

Structure by Age (Staff Turnover)



Categories	2023	2022
Turnover rate of employees by gender ^(Note 2)		
Male	8%	4%
Female	7%	18%
Turnover rate of employees by age groups ^(Note 2)		
Below 30	17%	18%
30-50	7%	7%
Above 50	3%	10%

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 had no material non-compliance in relation to labour practices during the Reporting Period (2022: nil), and was not involved in human rights infringement or employment of child and forced labour.

Environmental, Social and Governance Report (Continued)

B2 Aspect: 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. We strictly follow the laws and regulations on occupational health and safety, including but not limited to 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》), with an effort to provide employees with a safe and healthy work environment.

According to 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 in specific production process; made stipulation on environmental control over occupational health and safety in production and management processes; organised safety education training activities and safety production meetings regularly, and stipulated that new employees must receive safety education and pass an examination before they 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” (《職業健康安全體系認證證書》) in line with the ISO 45001:2018 standard.

During the Reporting Period, the Company constantly maintained and optimised its occupational health and safety management system. For instance, the Company arranged regular physical check-ups for employees and established the Occupational Health Archives (《職業衛生檔案》) to record in detail the personal information of each employee including name, gender, age, birthplace, and the results of previous occupational health inspections and the corresponding processing measures. We work to ensure the effective provision and use of occupational disease protection facilities and detect whether the concentration or intensity of occupational hazards in the working environment meets national standards, so as to reduce the risk of occupational disease and protect workers' health. We conduct pre-employment and pre-resignation physical examinations for new employees and departing employees, respectively, and regularly arrange the safety management department to conduct comprehensive occupational health inspections.

Environmental, Social and Governance Report (Continued)

In addition, in order to raise employees' safety awareness and operational skills, we hold a variety of safety education trainings every month, covering national production safety laws and regulations, position-specific environmental and health issues, etc. In addition to regular trainings, quizzes on production safety are set up to test and reinforce employees' safety knowledge. The Company constantly promotes safety knowledge and information through its routine broadcast system. For issues discovered during daily safety inspections, such as improper operations by employees or failure to use labour protective supplies as required, safety inspectors have the right to immediately address and rectify the issues to ensure workplace safety.

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.

During the Reporting Period, the Company had no (2022: nil) material non-compliance cases in relation to health and safety laws and regulations. There was no work-related injury cases or fatalities occurred as well as lost days due to work injury in the past three years.

B3 Aspect: Development and Training

The Company is people-oriented and believes that employees are the most valuable assets of the Company. For the purpose of improving employees' work efficiency, strengthening their competence for their duties 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 appropriate training for employees in different functions. The training content is planned and implemented based on corporate regulations, position requirements, operating skills and other details. The system also specifies the arrangement, implementation, supervision, assessment as well as improvement suggestions of each training.

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 2023, the training courses organised by the Company covered various aspects such as occupational health and safety, fire safety knowledge, production safety, enhancement of management abilities for team leaders, technology and skills, theoretical knowledge of production quality, patent knowledge and the practical application of fine production. A total of about 97%^(Note 1) (2022: 92%) of employees received the training, with each employee receiving an average of approximately 7.39 training hours^(Note 2) (2022: 3.32). 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, in order to further improve the comprehensive quality and business capabilities of its employees, the Company paid extra attention to the implementation of training and significantly increased the investment and intensity of training. The implementation of this strategy had resulted in a significant increase in the content and length of training this year compared to last year. During the year, a total of 7,124 hours (2022: 3,382 hours) of regular trainings were organised, with employee participants totaling 4,168 (2022: 1,597); and a total of 2,168 hours (2022: 1,155 hours) of anti-corruption trainings were organised, with employee participants totaling 1,155 (2022: 1,155). Below sets out the trainings by gender and position of employees:

Categories	2023			
	Number of trained employees	Percentage of trained employees <small>(note 3)</small>	Total number of training hours <small>(hour)</small>	Average training hours completed per employee <small>(hour)^(note 4)</small>
By employee gender				
Male	841	67%	6,107	7.06
Female	416	33%	3,185	7.32
By employee position				
Senior management	8	1%	36	1.64
Middle management	39	3%	262	5.04
Other employees	1,210	96%	8,994	7.34

Categories	2022			
	Number of trained employees	Percentage of trained employees <small>(note 3)</small>	Total number of training hours <small>(hour)</small>	Average training hours completed per employee <small>(hour)^(note 4)</small>
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

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 trained employees in this category by the total number of trained employees.

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

B4 Aspect: Labour Standard

During recruitment, the Company provides applicants with the information of the job they apply for, including responsibilities, working conditions and location, occupational health and safety, production safety and remuneration, etc. According to the provisions of the Labour Contract Law (《勞動合同法》), the human resources department is responsible for verifying the authenticity of the information (such as working experience, 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 against his/her real intention.

The Company has made reasonable arrangement on staff's working time to ensure that it is within the statutory standard working time range. According to the Labour Law, staff are entitled to have leave benefits such as paid leave and sick leave. Overtime management is detailed 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 compensatory leave or pay for overtime in accordance with law. The Company prohibits forced labour in all forms.

When any child labour or forced labour is discovered, the Company would terminate the employment relationship, report to the relevant authorities and arrange to provide any necessary assistance to the subject persons if required.

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 (2022: nil).

Environmental, Social and Governance Report (Continued)

VIII. LEADING BUSINESS SUCCESS WITH CONCERTED EFFORTS

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 successfully captured market opportunities and actively participated in the construction of high-speed rail, heavy-haul rail and urban rail transit in various regions. The high-quality products and services offered by us play an important role in ensuring the safe, stable and efficient operation of railways. Through these projects, we demonstrated our expertise and capabilities in railway construction area, and contributed to the development of the national transportation infrastructure.

This year, the situation of the international shipping industry has been improving, and the order volume of the domestic shipbuilding industry ranked first in the world. Some key products of the Company were used in the shipbuilding industry and adopted by many domestic and overseas large-scale shipyards, winning the trust of users with their excellent stability and wide applicability. When users use these products, our technical team also provides comprehensive technical support services. Through these technical service projects, the Company showed its professional strength in the shipbuilding industry and contributed to the promotion of high-quality development of the shipbuilding industry at home and abroad.

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

B5 Aspect: 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》) with an aim to introduce suppliers with great potential into the Company's supply system and provide quality assurance for our products. Before selecting a new supplier, we conduct on-site inspections, collect information such as its Business License, Tax Registration Permit, Quality Inspection Report, Certification in Quality Management System and market reputation, and conduct inspection on its products. Only those who have passed the product test will be enrolled in our Qualified Supplier Catalogue (《合格供應商名錄》).

The Company purchases key raw materials mainly from qualified domestic suppliers. In order to reduce the risks of supply disruption and dependence on a single supplier, we usually establish partnerships with multiple suppliers and strictly control the quality of raw materials by random inspection and on-site visit.

In selecting suppliers, we evaluate various factors including their quality, costs, delivery and services. For material resources, the Company has established strategic cooperation relationship with long-term suppliers to ensure the quality of procurement. As for suppliers that have collaborated with us all along, we will conduct periodic evaluation, using the Supplier Cycle Assessment Form (《供應商週期評估表》) to evaluate suppliers, and issue a Treatment List for Corrective and Preventive Measures (《糾正和預防措施處理單》) to suppliers who have failed to meet the standard. They have to rectify within the time limit; otherwise, their supplier qualification will be 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.

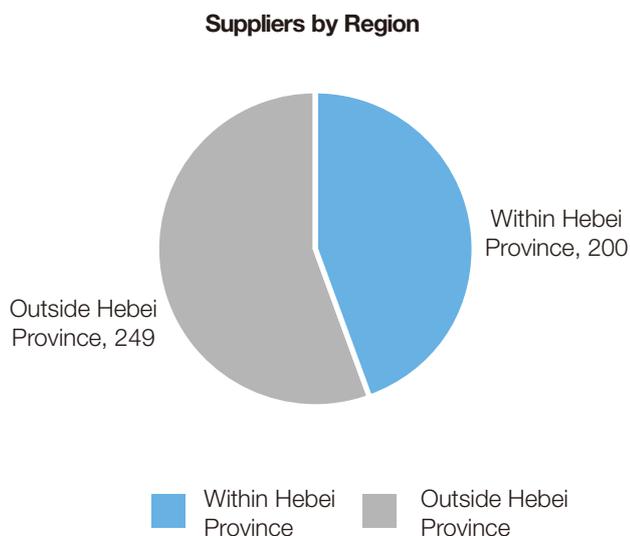
Environmental, Social and Governance Report (Continued)

During the reporting year, we followed the ESG governance principle and 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 establishing long-term collaborative relations with trustworthy suppliers to create value for each other. The ESG management of suppliers is the key to the mutual development of both parties. We standardised the entire process and made constant optimisation on it from all aspects to ensure that our suppliers meet our core values and requirements for 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.

The aforementioned supplier policies and practices are being implemented on all of the Company's suppliers. Suppliers that were active and had transactions with the Company during the Reporting Period totalled 449 (2022: 452), with categories mainly involving raw materials, packaging, fixed assets, molds and external accessories. 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. The breakdown of suppliers by region is as follows (Unit: number):



Environmental, Social and Governance Report (Continued)

B6 Aspect: 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, we control product quality rigorously pursuant to 41 standards 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 production, we comply with industry standards including New Type-III Concrete Bridge Sleepers and Guard Rail Fastening Q/CR 535-2016 (《新III型混凝土橋枕及護軌扣件Q/CR 535-2016》), Concrete Turnout Sleepers for Ballasted Track TB/T 3080-2014 (《有砟軌道混凝土岔枕TB/T 3080-2014》) and Concrete Sleepers TB/T 2190-2013 (《混凝土枕TB/T 2190-2013》). In terms of welding wire products, we abide by national quality standards including Stainless Steel Flux Cored Wire GB/T 17853-2018 (《不銹鋼藥芯焊絲GB/T 17853-2018》) and Non-alloy Steel and Fine Grain Steel Flux Cored Wire GB/T 10045-2018 (《非合金鋼及細晶粒鋼藥芯焊絲GB/T 10045-2018》). Currently, the Company has obtained special certifications such as ISO 9001 Quality Management Systems Certification and CRCC Certification for railway products.

Due to the nature of our business, the Company does not involve advertising, labeling, consumer data protection and privacy matters.

Quality Control

According to the above requirements, the Company has established a complete set of quality control system, including management system manuals, procedure documents and technical documents, with regular internal audit and management assessment. In addition, the Company also receives supervision and re-evaluation 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 strict identifications and records from raw materials and ingredients to finished products, ensuring the traceability of our products. The professional personnel in the quality management department of the Company is responsible for inspecting product and monitoring the quality of the product to ensure that the products meet the international standards and customers' expectations in terms of safety, reliability, availability and maintainability.

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 corporate economic losses, increase customer satisfaction, clarify the responsibility of returned products and timely resolve the issues of returned products. The Measures provide clear delineation of the responsibilities of each department, set out processing procedures in detail, and establish a processing mechanism for product return and replacement to satisfy customer's demands on return and replacement. Specific procedures include acceptance on deviation, repair, replacement or return of goods. At the same time, the relevant department shall analyse the reasons, so as to 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 appropriate processing plan. The feedback will be provided to the market development department to communicate with customers and coordinate various departments for joint processing, so as to ensure that customers' requests are handled in a prompt and satisfactory manner.

During the Reporting Period, the Company had no product sold or delivered that were needed to be recalled for safety and health reasons, nor had it received any complaints about product quality or other issues (2022: nil).

Environmental, Social and Governance Report (Continued)

Complaint Handling

The Company addresses customer complaints in the principle of “Prevention First”. Upon receipt of customer complaints, the market development department shall timely inform relevant departments. The quality management department will then lead relevant departments such as technology and production departments to jointly analyse and review the customer complaint. If the customer complaint involves product quality, we shall identify and isolate products of the same type and same batch 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.

Upon the isolation of the product, the quality management department shall convene a meeting involving technology, market and production departments based on the specific situation, to verify and review the isolated product and make decisions on scrapping, rework, return/replacement, application on concession and conversion of use according to the review results. All decisions will be immediately reported to relevant departments.

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》) and the Administrative Regulations on the Use of Registered Trademark (《註冊商標使用管理規定》), both of which were updated and optimised in 2023. The product trademarks of the Company are registered and protected by law. As at the end of 2023, the Company had 64 (2022: 56) active patents and 8 patents under application.

Environmental, Social and Governance Report (Continued)

B7 Aspect: 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 already formulated various internal regulations regarding anti-corruption and anti-fraud behavior, 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》), and updated the Anti-commercial Bribery Management Regulations in 2023. The Company also adheres to the principles of voluntariness, equality, fairness and integrity, as well as generally 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 continued to comply with the 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. For details, please refer to "Staff Training" section of this report.

During the Reporting Period, there was no legal proceedings regarding corruption that were raised and closed against the Group or its employees (2022: nil).

Environmental, Social and Governance Report (Continued)

IX. JOINING HANDS WITH THE COMMUNITY IN CREATING A COMMON FUTURE

B8 Aspect: Community Investment

The Company actively participated in community charity and fulfill its social responsibilities. The Company was involved in the following community contribution and public welfare activities during the Reporting Period:

1. During the 2023 Spring Festival, in order to bring lonely elderlies a happy, peaceful and warm festival, the Company conducted visiting and consolatory activities and sent rice, millet, flour, oil and other gifts to 10 lonely elderlies, sharing our care and warmth with them.
2. During the first quarter of 2023, the Company participated in the Pingshan poverty alleviation project, and donated RMB10,260 to impoverished families.
3. During the second quarter of 2023, the Company conducted a public cleaning activity named “Hutuo River Protection, Yichen Takes Action (保護滹沱河·翼辰在行動)”, in which employees were mobilised to personally clean up the garbage in the Hutuo River area. The activity not only reflected the ecological idea of “lucid waters and lush mountains are invaluable assets”, but also contributed to improving the environment quality of Hutuo River, demonstrating the Company’s social responsibilities and its commitment to environmental protection.

During the year, the Company has dedicated itself to environmental protection and social care, and conducted various activities. Looking ahead, we will continue our contribution to environmental protection and social responsibility, and join hands with communities in creating a common future.

AUDIT REPORT

Tian Jian Shen No. 3-127 [2024]

TO THE SHAREHOLDERS OF HEBEI YICHEN INDUSTRIAL GROUP CORPORATION LIMITED

I. OPINION

We have audited the financial statements of Hebei Yichen Industrial Group Corporation Limited (hereinafter referred to as “Yichen Industrial Corporation”), which comprise the consolidated and parent company balance sheet as at 31 December 2023, 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 2023, 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 2023 and the consolidated and parent company’s operational performance and cash flows for the year of 2023 in accordance with Accounting Standards for Business Enterprises.

II. BASIS FOR OPINION

We conducted our audit in accordance with China Certified Public Accountant Review Standard. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of the audit 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.

Audit Report *(Continued)*

III. 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 III(XXII) and V(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 2023, Yichen Industrial Corporation's revenue was RMB1,196,146,498.76.

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.

Audit Report (Continued)

III. 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 controls relating to revenue recognition, assess the design of such controls to confirm their implementation, and test the operational effectiveness of the relevant internal controls;
- (2) examine 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, product, customer and etc., identify whether there are significant or abnormal fluctuations, and look into the causes;
- (4) (in respect of revenue from domestic sales) check relevant supportive documents for the selected item, including sales contracts, orders, sales invoices, delivery orders, and customer receipts, etc.; (in respect of export revenue) obtain electron port information and verify it with book records, and check relevant supportive documents for the selected item, including sales contracts, export declarations, freight bills of lading and sales invoices;
- (5) confirm the sales amount of the selected item by taking into account the confirmation letters for accounts receivable and contract assets;
- (6) run a cut-off test to 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 was appropriately presented in financial statements.

Audit Report *(Continued)*

III. KEY AUDIT MATTERS *(Continued)*

(2) Impairment of accounts receivable

1. *Description of the matter*

For relevant information disclosure, see Notes III(X), (XI), and V(I) 4 to the financial statements.

As of 31 December 2023, the book balance of accounts receivable of Yichen Industrial Corporation was RMB1,423,357,331.19, the provision for bad debts was RMB234,489,223.10 and its book value was RMB1,188,868,108.09.

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 an individual or a portfolio basis.

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.

Audit Report (Continued)

III. 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 controls relating to impairment of accounts receivable, assess the design of such controls to confirm their implementation, and test the operational effectiveness of the relevant internal controls;
- (2) review the results of the estimates made by the Management regarding provision for bad debts in prior years or the subsequent re-estimation 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) (in respect of accounts receivable with the expected credit loss measured on an individual basis) review the Management's forecast on the expected collection of cash flow, evaluate the appropriateness of material assumptions used in the forecast and the appropriateness, relevance and reliability of data, and verify them with external evidences obtained;
- (5) (in respect of 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 expected credit loss rate of accounts receivable determined by the Management, including the appropriateness of material assumptions used and the appropriateness, relevance and reliability of data; test the accuracy of the Management's calculation of the provision for bad debts;
- (6) (in respect of 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, and evaluate the reasonableness of management's provision for bad debts on accounts receivable by taking into account overdue days of 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.

Audit Report *(Continued)*

III. KEY AUDIT MATTERS *(Continued)*

(3) Impairment of goodwill

1. *Description of the matter*

For relevant information disclosure, see III(XVIII) and V(I) 17 to the financial statements.

As of 31 December 2023, Yichen Industrial Corporation's original book value of goodwill was RMB114,280,454.01, impairment provision was RMB40,872,827.28 and book value was RMB73,407,626.73.

When impairment test is performed by the Management on goodwill together with its relevant asset group or combination of asset group, the recoverable amount of relevant asset group or combination of asset group is determined based on the net amount of fair value less disposal expenses.

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.

Audit Report *(Continued)***III. 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 key internal controls relating to impairment of goodwill, assess the design of such controls to confirm their implementation, and test the operational effectiveness of the relevant internal controls;
- (2) review the results of the estimation of recoverable amount by the Management in prior years or the subsequent re-estimation made by the Management;
- (3) 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) assess the appropriateness of material assumptions used by the Management in the impairment test, and review whether the relevant assumptions are consistent with internal and external conditions, assumptions used in other accounting estimates, and relevant assumptions used in other areas of business activities;
- (6) assess the appropriateness, relevance and reliability of data used by the Management in the impairment test, and review the consistency of the relevant information in the impairment test;
- (7) test if the Management's calculation of recoverable amount is accurate;
- (8) check whether the information on goodwill impairment has been properly presented in financial statements.

Audit Report *(Continued)*

IV. 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 audit 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.

V. 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 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.

Audit Report (Continued)

VI. 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 audit report containing our audit opinion. 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 audit 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 audit 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.

Audit Report *(Continued)*

VI. 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 audit 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 audit 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 2024

CONSOLIDATED BALANCE SHEET

31 December 2023

Unit: RMB

Assets	Notes	Closing balance	Closing balance of last year (Restated)
Current assets:			
Monetary capital	1	132,087,482.03	159,935,359.15
Provision for settlement			
Lendings to banks and other financial institutions			
Financial assets held for trading	2	101,346,207.48	207,524,486.40
Derivative financial asset			
Notes receivable	3	72,234,436.73	67,339,011.33
Accounts receivable	4	1,188,868,108.09	1,308,659,382.44
Financing of receivables	5	3,249,942.10	2,716,759.60
Prepayments	6	19,801,379.83	38,044,613.01
Insurance premiums receivable			
Cession premiums receivable			
Deposits receivable from reinsurance contract			
Other receivables	7	10,036,210.94	12,465,883.25
Recoursable financial assets acquired			
Inventories	8	355,301,190.40	354,920,513.03
Contract assets	9	38,933,605.92	28,082,566.29
Assets held for sale			
Non-current assets due within one year			
Other current assets	10	26,457,493.19	6,433,202.39
Total current assets		1,948,316,056.71	2,186,121,776.89

Consolidated Balance Sheet (Continued)

31 December 2023

Assets	Notes	Closing balance	Closing balance of last year (Restated)
Non-current assets:			
Loans and advances granted			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	11	281,806,908.78	241,896,914.68
Other equity instruments investment	12	8,197,392.29	8,197,392.29
Other non-current financial assets			
Investment properties			
Fixed assets	13	709,719,639.88	645,347,726.38
Construction in progress	14	157,137,432.52	199,706,523.63
Bearer biological assets			
Oil and gas assets			
Right-of-use assets	15		599,448.94
Intangible assets	16	138,295,847.68	141,372,721.27
Development expenditures			
Goodwill	17	73,407,626.73	79,072,652.90
Long-term deferred expenses	18	856,328.48	
Deferred income tax assets	19	33,160,626.19	11,432,259.74
Other non-current assets	20	88,294,547.02	81,684,665.23
Total non-current assets		1,490,876,349.57	1,409,310,305.06
Total assets		3,439,192,406.28	3,595,432,081.95

Consolidated Balance Sheet (Continued)

31 December 2023

Liabilities and owner's equity	Notes	Closing balance	Closing balance of last year (Restated)
Current liabilities:			
Short-term borrowings	22	198,145,042.00	182,639,573.25
Borrowings from central bank			
Borrowed funds			
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	23	32,594,685.72	73,801,170.00
Accounts payable	24	350,349,406.08	374,433,795.85
Advance receipts			
Contract liabilities	25	14,747,268.98	8,164,349.97
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	26	6,009,968.24	6,178,583.11
Tax payable	27	18,601,668.70	11,991,332.01
Other payables	28	22,516,750.29	38,379,396.29
Handling charges and commissions payable			
Cession premiums payable			
Liabilities held for sale			
Non-current liabilities due within one year	29	158,340,000.00	218,127,472.25
Other current liabilities	30	3,905,143.52	5,468,153.98
Total current liabilities		805,209,933.53	919,183,826.71

Consolidated Balance Sheet (Continued)

31 December 2023

Liabilities and owner's equity	Notes	Closing balance	Closing balance of last year (Restated)
Non-current liabilities:			
Provision for insurance contracts			
Long-term borrowings	31	150,310,000.00	197,500,000.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term payroll payables			
Provision for liabilities	32		451,731.44
Deferred income	33	4,478,466.67	4,711,066.67
Deferred income tax liabilities	18	290,218.17	314,309.27
Other non-current liabilities			
Total non-current liabilities		155,078,684.84	202,977,107.38
Total liabilities		960,288,618.37	1,122,160,934.09
Owners' equity:			
Paid-in capital (or share capital)	34	448,920,000.00	448,920,000.00
Other equity instruments			
Including: Preferred shares			
Perpetual bonds			
Capital reserve	35	813,538,772.51	813,227,049.41
Less: Treasury stock			
Other comprehensive income	36	-123,507.71	-123,507.71
Special reserve			
Surplus reserve	37	156,494,587.84	151,797,418.83
Provision for general risks			
Undistributed profits	38	1,046,929,545.57	1,047,164,273.24
Total equity attributable to owners of the parent		2,465,759,398.21	2,460,985,233.77
Minority interests		13,144,389.70	12,285,914.09
Total owner's equity		2,478,903,787.91	2,473,271,147.86
Total liabilities and owner's equity		3,439,192,406.28	3,595,432,081.95

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

BALANCE SHEET OF PARENT COMPANY

31 December 2023

Unit: RMB

Assets	Notes	Closing balance	Closing balance of last year (Restated)
Current assets:			
Monetary capital		86,911,225.34	133,028,366.43
Financial assets held for trading		101,346,207.48	207,524,486.40
Derivative financial assets			
Bills receivable		19,038,745.60	65,814,011.33
Accounts receivable	1	1,062,408,255.11	1,229,641,661.58
Financing of receivables		100,000.00	1,486,759.60
Prepayments		11,717,757.00	35,876,119.46
Other receivables	2	47,048,369.74	10,288,890.33
Inventories		306,359,028.99	349,546,173.46
Contract assets		36,523,998.85	27,289,888.67
Assets held for sale			
Non-current assets due within one year			
Other current assets		5,470,961.03	5,714,590.51
Total current assets		1,676,924,549.14	2,066,210,947.77
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	3	687,953,126.24	519,049,804.23
Other equity instruments investment		8,197,392.29	8,197,392.29
Other non-current financial assets			
Investment properties			
Fixed assets		587,409,779.33	622,228,578.73
Construction in progress		155,854,559.19	199,436,523.63
Bearer biological assets			
Oil and gas assets			
Right-of-use assets			599,448.94
Intangible assets		132,390,704.09	135,326,428.76
Development expenditures			
Goodwill			
Long-term deferred expenses			
Deferred income tax assets		30,567,094.20	10,666,693.60
Other non-current assets		81,867,361.37	76,734,953.57
Total non-current assets		1,684,240,016.71	1,572,239,823.75
Total assets		3,361,164,565.85	3,638,450,771.52

Balance Sheet of Parent Company (Continued)

31 December 2023

Liabilities and owner's equity	Notes	Closing balance	Closing balance of last year (Restated)
Current liabilities:			
Short-term borrowings		178,500,000.00	175,000,000.00
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable		32,594,685.72	73,801,170.00
Accounts payable		278,471,479.86	405,577,812.80
Advance receipts			
Contract liabilities		3,903,183.17	6,989,317.89
Payroll payable		4,585,807.86	5,692,500.19
Tax payable		15,062,505.21	5,494,582.65
Other payables		137,127,790.26	154,215,761.67
Liabilities held for sale			
Non-current liabilities due within one year		158,340,000.00	218,127,472.25
Other current liabilities		2,915,061.78	5,315,399.81
Total current liabilities		811,500,513.86	1,050,214,017.26
Non-current liabilities:			
Long-term borrowings		147,810,000.00	188,000,000.00
Bonds payable			
Including: Preferred shares			
Perpetual bonds			
Lease liabilities			
Long-term payables			
Long-term payroll payables			
Provision for liabilities			451,731.44
Deferred income		4,478,466.67	4,711,066.67
Deferred income tax liabilities			
Other non-current liabilities			
Total non-current liabilities		152,288,466.67	193,162,798.11
Total liabilities		963,788,980.53	1,243,376,815.37
Owners' 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		832,051,339.06	831,739,615.96
Less: Treasury stock			
Other comprehensive income		-123,507.71	-123,507.71
Special reserve			
Surplus reserve		156,494,587.84	151,797,418.83
Undistributed profits		960,033,166.13	962,740,429.07
Total owner's equity		2,397,375,585.32	2,395,073,956.15
Total liabilities and owner's equity		3,361,164,565.85	3,638,450,771.52

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

CONSOLIDATED INCOME STATEMENT

2023

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year (Restated)
I. Total operating revenue		1,196,146,498.76	1,258,266,197.95
Including: Operating income	1	1,196,146,498.76	1,258,266,197.95
Interest income			
Premiums earned			
Handling charges and commissions income			
II. Total operating cost		1,085,221,045.78	1,128,981,461.11
Including: Operating cost	1	904,795,522.09	955,756,232.37
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	14,273,386.04	12,274,526.43
Selling expenses	3	19,792,515.77	18,693,029.09
Management expenses	4	95,519,739.60	79,716,083.80
Research and development expense	5	33,329,383.48	42,878,147.87
Finance costs	6	17,510,498.80	19,663,441.55
Including: Interest costs		18,659,943.26	21,118,456.52
Interest income		2,431,294.86	1,993,747.07
Add: Other income	7	8,218,132.22	1,582,601.89
Investment gains (“-” for losses)	8	-33,496,490.85	41,009,028.64
Including: Gains on investments in associates and joint ventures		34,361,625.08	32,661,927.08
Gains on derecognition of financial assets measured at amortised cost		-89,167.69	
Foreign exchange gains (“-” for losses)			
Net income on exposure hedging (“-” for losses)			
Gain from changes in fair value (“-” for losses)	9	19,019,173.08	95,898,773.54
Loss on credit impairment (“-” for losses)	10	-36,895,029.79	-45,865,582.10
Impairment loss of assets (“-” for losses)	11	-18,864,502.19	-37,581,112.19
Gains on disposal of assets (“-” for losses)			

Consolidated Income Statement (Continued)

2023

Items	Notes	Amounts for the period	Amounts for the same period of prior year (Restated)
III. Operating profits (“-” for losses)		48,906,735.45	184,328,446.62
Add: Non-operating incomes	12	1,522,316.42	27,767.93
Less: Non-operating expenses	13	297,907.56	881,483.49
IV. Total profit (“-” for total losses)		50,131,144.31	183,474,731.06
Less: Income tax expenses	14	-171,556.64	21,315,482.44
V. Net profit (“-” for net losses)		50,302,700.95	162,159,248.62
(I) Classified according to continuity			
1. Net profit from continuing operations (“-” for net losses)		50,302,700.95	162,159,248.62
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)		49,444,225.34	161,032,123.78
2. Profit and loss of minority interests (“-” for net losses)		858,475.61	1,127,124.84
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)
2023

Items	Notes	Amounts for the period	Amounts for the same period of prior year (Restated)
(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		50,302,700.95	162,035,740.91
Total comprehensive income attributable to owners of the parent		49,444,225.34	160,908,616.07
Total comprehensive income attributable to minority interests		858,475.61	1,127,124.84
VIII. Earnings per share:			
(I) Basic earnings per share		0.06	0.18
(II) Diluted earnings per share		0.06	0.18

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

INCOME STATEMENT OF PARENT COMPANY

2023

Unit: RMB

Items	Notes	Amounts for the period	Amounts for the same period of prior year (Restated)
I. Operating revenue	1	898,318,147.53	1,191,626,802.61
Less: Operating cost	1	638,658,230.77	924,957,843.99
Taxes and surcharges		13,242,670.85	11,350,981.56
Selling expenses		14,861,405.36	16,948,544.47
Management expenses		88,284,057.16	76,559,727.58
Research and development expense	2	29,888,682.87	40,119,879.52
Finance costs		16,898,845.40	19,118,506.69
Including: Interest costs		17,976,844.03	20,521,522.76
Interest income		2,357,908.93	1,904,048.85
Add: Other income		7,454,047.15	1,405,249.16
Investment gains (“-” for losses)	3	-33,407,323.16	41,009,028.64
Including: Gains on investments in associates and joint ventures		34,361,625.08	32,661,927.08
Gains on derecognition of financial assets measured at amortised cost			
Net income on exposure hedging (“-” for losses)			
Gain from changes in fair value (“-” for losses)		19,019,173.08	95,898,773.54
Loss on credit impairment (“-” for losses)		-29,014,339.59	-43,496,827.13
Impairment loss of assets (“-” for losses)		-16,889,741.94	-36,992,444.35
Gains on disposal of assets (“-” for losses)		154,479.30	
II. Operating profits (“-” for losses)		43,800,549.96	160,395,098.66
Add: Non-operating incomes		1,522,288.82	21,739.61
Less: Non-operating expenses		289,729.30	847,379.50
III. Total profit (“-” for total losses)		45,033,109.48	159,569,458.77
Less: Income tax expenses		-1,938,580.59	16,946,787.85
IV. Net profit (“-” for net losses)		46,971,690.07	142,622,670.92
(I) Net profit from continuing operations (“-” for net losses)		46,971,690.07	142,622,670.92
(II) Net profit from discontinued operations (“-” for net losses)			

Income Statement of Parent Company (Continued)
2023

Items	Notes	Amounts for the period	Amounts for the same period of prior year (Restated)
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		46,971,690.07	142,499,163.21
VII. Earnings per share:			
(I) Basic 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

2023

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		1,078,827,066.90	830,313,311.90
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		5,764,752.51	5,342,782.81
Other cash received from operating-related activities	1(1)	108,046,676.59	101,858,683.15
Sub-total of cash inflow from operating activities		1,192,638,496.00	937,514,777.86
Cash paid for goods purchased and labour service received		699,576,685.06	737,451,719.96
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		107,236,568.06	111,707,396.50
Payments of taxes and surcharges		94,002,305.64	64,857,568.74
Other cash paid for operating-related activities	1(2)	98,197,778.82	144,848,334.09
Sub-total of cash outflow from operating activities		999,013,337.58	1,058,865,019.29
Net cash flows from operating activities	2	193,625,158.42	-121,350,241.43

Consolidated Statement of Cash Flows (Continued)
2023

Items	Notes	Amounts for the period	Amounts for the same period of prior year
II. Cash flows from investing activities:			
Cash from disinvestments		55,238,288.49	9,948,912.07
Cash received from return of investments		7,471,240.00	5,911,554.65
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		79,440.00	
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		62,788,968.49	15,860,466.72
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		94,667,638.66	111,701,480.72
Cash paid for investment			5,475,567.06
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		94,667,638.66	117,177,047.78
Net cash flows from investing activities		-31,878,670.17	-101,316,581.06

Consolidated Statement of Cash Flows (Continued)

2023

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		362,045,042.00	502,639,573.25
Other cash received from financing-related activities	1(3)		10,360,410.96
Sub-total of cash inflows from financing activities		362,045,042.00	512,999,984.21
Cash paid for repayment of debts		445,850,000.00	183,214,200.00
Cash paid for distribution of dividends and profits or repayment of interest		63,626,997.67	70,725,825.54
Including: Dividends and profits paid to minority shareholders by subsidiaries			
Other cash paid for financing-related activities	1(4)	700,000.00	25,372,035.01
Sub-total of cash outflows for financing activities		510,176,997.67	279,312,060.55
Net cash flows from financing activities		-148,131,955.67	233,687,923.66
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		-573,137.38	57,911.81
V. Net increase in cash and cash equivalents	3	13,041,395.20	11,079,012.98
Add: Opening balance of cash and cash equivalents		77,019,860.44	65,940,847.46
VI. Closing balance of cash and cash equivalents	3	90,061,255.64	77,019,860.44

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

STATEMENT OF CASH FLOWS OF PARENT COMPANY

2023

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		956,036,705.80	785,615,389.03
Refund of taxes		5,502,241.17	5,257,197.12
Other cash received from operating-related activities		108,586,237.81	101,585,603.88
Sub-total of cash inflow from operating activities		1,070,125,184.78	892,458,190.03
Cash paid for goods purchased and labour service received		575,609,830.47	705,956,708.63
Cash paid to and for employees		82,151,507.61	103,462,216.80
Payments of taxes and surcharges		65,508,570.82	55,068,049.38
Other cash paid for operating-related activities		94,255,791.31	141,586,740.73
Sub-total of cash outflow from operating activities		817,525,700.21	1,006,073,715.54
Net cash flows from operating activities		252,599,484.57	-113,615,525.51
II. Cash flows from investing activities:			
Cash from disinvestments		55,238,288.49	9,948,912.07
Cash received from return of investments		7,471,240.00	5,911,554.65
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		118,464,229.39	
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		181,173,757.88	15,860,466.72
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets		91,320,568.71	110,163,736.75
Cash paid for investment		147,000,000.00	5,482,780.46
Net cash paid for acquisition of subsidiaries and other business units			
Other cash paid for investing-related activities		40,000,000.00	
Sub-total of cash outflows from investing activities		278,320,568.71	115,646,517.21
Net cash flows from investing activities		-97,146,810.83	-99,786,050.49

Statement of Cash Flows of Parent Company (Continued)

2023

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		331,500,000.00	485,000,000.00
Other cash received from financing-related activities			10,360,410.96
Sub-total of cash inflows from financing activities		331,500,000.00	495,360,410.96
Cash paid for repayment of debts		427,350,000.00	177,714,200.00
Cash paid for distribution of dividends and profits or repayment of interest		62,958,628.03	70,128,891.78
Other cash paid for financing-related activities		700,000.00	25,372,035.01
Sub-total of cash outflows for financing activities		491,008,628.03	273,215,126.79
Net cash flows from financing activities		-159,508,628.03	222,145,284.17
IV. Effect of changes in foreign exchange rates on cash and cash equivalents		-602,282.66	57,948.38
V. Net increase in cash and cash equivalents		-4,658,236.95	8,801,656.55
Add: Opening balance of cash and cash equivalents		50,113,102.64	41,311,446.09
VI. Closing balance of cash and cash equivalents		45,454,865.69	50,113,102.64

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

2023

Unit: RMB

Items	Amounts for the period												
	Equity attributed to owners of parent company												
	Paid-up capita (or share capital)	Other equity instruments			Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risks	Undistributed profits	Minority interests	Total owner's Items equity
Preferred shares		Perpetual bonds	Others										
I. Closing balance of prior year	448,920,000.00				813,227,049.41		-123,507.71		151,797,418.83		1,047,164,273.24	12,285,914.09	2,473,271,147.86
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		-123,507.71		151,797,418.83		1,047,164,273.24	12,285,914.09	2,473,271,147.86
III. Increase or decrease for the period (*: for decreases)					311,723.10				4,697,169.01		-234,727.67	858,475.61	5,632,640.05
(I) Total comprehensive income											49,444,225.34	858,475.61	50,302,700.95
(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									4,697,169.01		-49,678,953.01		-44,981,784.00
1. Appropriation to surplus reserve									4,697,169.01		-4,697,169.01		
2. Withdrawal of provision for general risks													
3. Distribution to owners (or shareholders)													
4. Others											-44,981,784.00		-44,981,784.00
(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					311,723.10								311,723.10
IV. Closing balance of current period	448,920,000.00				813,538,772.51		-123,507.71		156,494,587.84		1,046,929,545.57	13,144,389.70	2,478,903,787.91

Consolidated Statement of Changes in Owners' Equity (Continued)

2023

Items	Amounts for the same period of prior year												
	Equity attributed to owners of parent company												Total owner's Items equity
	Paid-up capital (or share capital)	Other equity instruments			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								413.90		3,725.08			4,138.98
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				137,535,151.74		950,044,968.55	11,158,789.25	2,360,885,958.95
III. Increase or decrease for the period													
(*) for decreases)													
(i) Total comprehensive income								-123,507.71	14,262,267.09		97,119,304.69	1,127,124.84	112,385,188.91
(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									14,262,267.09		-63,912,819.09		-49,650,552.00
1. Appropriation to surplus reserve									14,262,267.09		-14,262,267.09		
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	151,797,418.83		1,047,164,273.24	12,285,914.09	2,473,271,147.86

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

2023

Unit: RMB

Items	Other equity instruments				Amounts for the period					Undistributed profits	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		
I. Closing balance of prior year	448,920,000.00				831,739,615.96		-123,507.71		151,797,418.83	962,740,429.07	2,395,073,956.15
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		-123,507.71		151,797,418.83	962,740,429.07	2,395,073,956.15
III. Increase or decrease for the period ("-" for decreases)					311,723.10				4,697,169.01	-2,707,282.94	2,301,629.17
(I) Total comprehensive income										46,971,690.07	46,971,690.07
(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									4,697,169.01	-49,678,953.01	-44,981,784.00
1. Appropriation to surplus reserve									4,697,169.01	-4,697,169.01	
2. Distribution to owners (or shareholders)										-44,981,784.00	-44,981,784.00
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					311,723.10						311,723.10
IV. Closing balance of current period	448,920,000.00				832,051,339.06		-123,507.71		156,494,587.84	960,033,166.13	2,397,375,585.32

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

2023

Items	Paid-up capital (or share capital)	Other equity instruments			Amounts for the same period of prior year						Total owner's equity
		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								413.90		3,725.08	4,138.98
Correction of errors in prior periods											
Others											
II. Opening balance of current year	448,920,000.00				831,739,615.96				137,535,151.74	884,030,577.24	2,302,225,344.94
III. Increase or decrease for the period ("—" for decreases)											
(I) Total comprehensive income							-123,507.71		14,262,267.09	78,709,851.83	92,848,611.21
(II) Capital invested and decreased by owners							-123,507.71			142,622,670.92	142,499,163.21
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									14,262,267.09	-63,912,819.09	-49,650,552.00
1. Appropriation to surplus reserve									14,262,267.09	-14,262,267.09	
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		151,797,418.83	962,740,429.07	2,395,073,956.15

Legal representative:
Zhang Haijun

Person in charge of accounting:
Wu Jinyu

Head of Finance Section:
Yang Yunjuan

NOTES TO THE FINANCIAL STATEMENTS

2023

Amount unit: RMB

I. 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 with a nominal value of RMB0.5 per share, among which, 673,380,000 are domestic shares and 224,460,000 are H 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.

These financial statements were approved for publication at the 20th meeting of the third session of the Board of the Company on 19 April 2024.

II. 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)

2023

III. 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, inventories, depreciation of fixed assets, construction in progress, 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 realised or due within 12 months.

(IV) Functional Currency

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

(V) Determination Method and Selection Basis of Materiality Standards

The Company follows the principle of materiality in preparing and disclosing financial statements. Disclosures in the notes to these financial statements involving the judgment based on materiality standards, and the determination methods and selection basis of the materiality standards are as follows:

Disclosures involving the judgment based on materiality standards	Disclosures of the matter in the notes to these financial statements	Determination method and selection basis of materiality standards
Material accounts receivable with provision for bad debts made individually		The Company recognises projects with accounts receivable with provision for bad debts made individually exceeding 0.5% of total assets as material accounts receivable with provision for bad debts made individually
Material recovery or reversal of provision for bad debts on accounts receivable		The Company recognises projects with recovery or reversal of provision for bad debts on accounts receivable exceeding 0.5% of total assets as material recovery or reversal of provision for bad debts on accounts receivable

Notes to the Financial Statements (*Continued*)
2023

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

Disclosures involving the judgment based on materiality standards	Disclosures of the matter in the notes to these financial statements	Determination method and selection basis of materiality standards
Material write-off of accounts receivable		The Company recognises projects with write-off of accounts receivable exceeding 0.5% of total assets as material write-off of accounts receivable
Material prepayments ageing over 1 year		The Company recognises projects with prepayments ageing over 1 year and exceeding 0.5% of total assets as material prepayments ageing over 1 year
Major projects under construction	V(l) 14	The Company recognises projects with amount under construction on an individual basis exceeding 0.5% of total assets as major projects under construction
Material accounts payable ageing over 1 year	V(l) 24(3)	The Company recognises projects with accounts payable ageing over 1 year and exceeding 0.5% of total assets as material accounts payable ageing over 1 year
Material other payables ageing over 1 year		The Company recognises projects with other payables ageing over 1 year and exceeding 0.5% of total assets as material other payables ageing over 1 year
Material contract liabilities ageing over 1 year		The Company recognises projects with contract liabilities ageing over 1 year and exceeding 0.5% of total assets as material contract liabilities ageing over 1 year
Material overseas operating entities		The Company recognises subsidiaries with total assets/total revenue/total profit exceeding 15% of total assets/total revenue/total profit of the Group as material overseas operating entities
Material cash flows from investing activities		The Company recognises cash flows from investing activities on an individual basis exceeding 5% of total assets as material cash flows from investing activities

Notes to the Financial Statements (*Continued*)

2023

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

(VI) 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 paid 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.

(VII) Standards for Determination of Control and Preparation for Consolidated Financial Statements

1. *Determination of control*

An investor is deemed to have control when it has the power over the investee, enjoys variable returns by participating in the relevant activities of the investee, and has the ability to influence the amount of variable returns by utilising the power over the investee.

2. *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.

(VIII) 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.

Notes to the Financial Statements (*Continued*)
2023

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

(IX) 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 capitalisation 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.

(X) 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 amortised 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 amortised cost.

Notes to the Financial Statements (*Continued*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(X) Financial instruments** (*Continued*)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.

(2) Subsequent measurement of financial assets

- 1) Financial assets measured at amortised cost
These assets are subsequently measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be included in profit or loss when the financial asset is derecognised, reclassified, amortised 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*)
2023

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

(X) 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*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(X) 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*)
2023

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

(X) 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*

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

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

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

Notes to the Financial Statements (*Continued*)

2023

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

(X) Financial instruments (*Continued*)

5. *Impairment of financial instruments (Continued)*

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 provision is measured at the amount of lifetime ECLs; if there has not been a significant increase in the credit risk since initial recognition, the loss provision is 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.

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 provision 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 provision 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 provision is recognised in other comprehensive income without reducing the book value of the financial asset.

6. *Offset of financial assets and financial liabilities*

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

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

Notes to the Financial Statements (Continued)
2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XI) Recognition Standards and Provision Methods for Expected Credit Losses on Receivables and Contract Assets

1. Receivables and contract assets with expected credit losses provided based on credit risk characteristic group

Group categories	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	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 ageing and lifetime expected credit loss rate
Accounts receivable – grouped by payment		
Accounts receivable – grouped by retention monies		
Contract assets – grouped by retention monies	Retention monies	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
Accounts receivable – group of related parties within the scope of combination	Related parties within the scope of combination	The expected credit loss is calculated, with reference to historical credit loss experience, in consideration of current conditions and prediction of future economic conditions, and based on the default risk exposure and lifetime expected credit loss rate
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)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XI) Recognition Standards and Provision Methods for Expected Credit Losses on Receivables and Contract Assets (Continued)

2. Table of comparison of ageing and expected credit loss rate of ageing groups

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

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*)
2023

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

(XI) Recognition Standards and Provision Methods for Expected Credit Losses on Receivables and Contract Assets (*Continued*)

3. *Provision for expected credit losses on individual basis*

Recognition standards for losses on receivables and contract assets

For receivables and contract assets with significant difference between credit risk and grouping credit risk, the provision for expected credit losses is made on an individual basis.

(XII) Inventories

1. *Categories of inventories*

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials 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. *Inventory system*

Perpetual inventory method is adopted.

4. *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.

5. *Provision for impairment 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.

Notes to the Financial Statements (*Continued*)

2023

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

(XIII) 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*)
2023

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

(XIII) 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, initial investment cost is accounted for using the cost method recognised at the book value of the previously held equity investments plus the newly increased 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*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XIII) 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) Determination basis of “package deal”

For the disposal of investment in a subsidiary to loss of control in stages through various transactions, the Company determines whether the step transactions are “package deal” according to clauses of trade agreements of each step transaction, the disposal consideration acquired at each transaction, the object for disposal of the equity, the disposal method and the disposal time. If the clauses, conditions and economic influence of each transaction meet one or more of the following conditions, it usually represents the step transactions shall be “package deal”:

- 1) The transactions are entered into at the same time or after considering the influence for each other;
- 2) The transactions can achieve a complete business result only when they are entered into as a whole;
- 3) The occurrence of one transaction depends on the occurrence of at least one of the other transactions;
- 4) A transaction is not economically viable but it is economically viable when considering with other transactions.

(2) Accounting treatment for non-“package deal”

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

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.

Notes to the Financial Statements (*Continued*)
2023**III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES** (*Continued*)**(XIII) Long-term Equity Investments** (*Continued*)4. *Accounting treatment of disposal of investment in a subsidiary to loss of control in stages through various transactions* (*Continued*)(2) Accounting treatment for non-“package deal” (*Continued*)2) Consolidated financial statements (*Continued*)

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.

(3) Accounting treatment for “package deal”

1) Separate financial statements

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 book value of the long-term equity investments corresponding to the disposed investment is recognised as other comprehensive income in separate financial statements and transferred to profit or loss for the period when the control is lost.

2) Consolidated financial statements

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)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(XIV) 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

(XV) 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.

Categories	Standards and timings for transferring construction in progress to fixed assets
Buildings and structures	Certification of completion of works is obtained or standards of operation are met after the completion of construction
Machinery and equipment/ Electronics equipment	Design requirements or contractual standards are met after installation and commissioning

Notes to the Financial Statements (*Continued*)
2023

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

(XVI) 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; 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*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XVII) 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. Details are set out below:

Items	Useful lives and its basis of determination	Amortisation method
Land use rights	50 years, according to the land use years	Straight-line basis
Software	5 years, based on the expected economic benefit life	Straight-line basis

3. *Consolidation scope of expenditure for research and development (R&D)*

(1) Staff labour costs

Staff labour costs include wages and salaries, basic pension insurance premium, basic medical insurance premium, unemployment insurance premium, work injury insurance premium, maternity insurance premium and housing provident funds of the Company's research and development staff, as well as labour costs of external R&D staff.

Labour costs for R&D staff concurrently serving multiple R&D projects are recognised based on the work hour records of the R&D staff for each R&D project provided by the Company's management department, and are allocated in proportion among the different R&D projects.

For staff directly engaged in R&D activities and external R&D staff concurrently engaged in non-R&D activities, the Company allocates the actual staff labour costs incurred based on the work hour records of the R&D staff at different posts between the R&D costs and the production and operating costs according to rational methods, such as the proportion of the actual work hours.

(2) Direct investment expenses

Direct investment expenses are the actual relevant expenditures incurred for the implementation of the Company's R&D activities. Such expenses include: 1) the cost of materials, fuel and power directly consumed; 2) development and manufacturing expenses of molds and technical equipment for intermediate test and product trial production, the acquisition costs of samples, prototypes and general testing methods which do not constitute fixed assets, and the inspection costs of trial products; 3) the costs for the operation and maintenance, adjustment, inspection, testing and repairs of instruments and equipment used in R&D activities.

Notes to the Financial Statements (*Continued*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XVII) Intangible Assets** (*Continued*)3. *Consolidation scope of expenditure for research and development (R&D)* (*Continued*)(3) Depreciation expenses and long-term deferred expenses

Depreciation expenses are charges for the depreciation of instruments, equipment and buildings in use for R&D activities.

For instruments, equipment and buildings in use for R&D activities and at the same time for non-R&D activities, necessary records shall be kept on the use of such instruments, equipment and buildings in use, and the actual depreciation expenses incurred are allocated between R&D costs and production and operating costs by adopting rational methods based on factors such as the actual work hours and the usable area.

Long-term deferred expenses are those expenses incurred in the course of reconstruction, alteration, renovation and repair of R&D facilities, which are collected based on actual expenses and evenly amortised within a stipulated period.

(4) Design expenses

Design expenses are expenses incurred for the conception, development and manufacture as well as the design of work processes, technical specifications, procedure formulation and operational characteristics for new products and new processes, including the related expenses incurred in creative design activities for the acquisition of innovative, creative and groundbreaking products.

(5) Equipment commissioning and testing expenses

Equipment commissioning expenses are expenses incurred in the R&D activities during the preparation of tooling, including expenses incurred in activities such as the research and manufacture of special and specific production machines, alteration in production and quality control procedures, or establishment of new methods and standards.

Expenses from routine tooling preparation and industrial engineering for large-scale and batch-based commercial production are not included in the scope of consolidation.

Testing expenses include clinical trial expenses for the research and manufacture of new drugs, expenses for on-site experiments on exploration and development technologies, field trial expenses, etc.

Notes to the Financial Statements (Continued)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(XVII) Intangible Assets** (Continued)

3. Consolidation scope of expenditure for research and development (R&D) (Continued)

(6) R&D expenses incurred by entrusted external parties

R&D expenses incurred by entrusted external parties are expenses arising from R&D activities conducted by other institutions or individuals entrusted by the Company at home or abroad (the results of the R&D activities are owned by the Company and are closely related to the Company's principal business).

(7) Other expenses

Other expenses are those directly related to R&D activities except for the above-mentioned expenses, including technical books and materials costs, translation expenses on materials, expert consulting fees, insurance premium for high-tech R&D, expenses on search, demonstration, evaluation, identification and acceptance for R&D results, application, registration and agency fees for intellectual property rights, conference fees, travel expenses, communication expenses, etc.

4. Expenditures for internal R&D projects during the development stage are included in current profit or loss as incurred. The expenses of internal R&D 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.

(XVIII) 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 above-mentioned 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.

(XIX) 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.

Notes to the Financial Statements (*Continued*)
2023

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

(XX) Employee Remuneration

1. *Employee remuneration includes short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.*
2. *Accounting treatment of short-term remuneration*
During the accounting period when the staff provides service, the Company will recognise the short-term remuneration incurred as liabilities, and the liabilities would be included in current profit or loss or the relevant costs of assets.
3. *Accounting treatment of post-employment benefits*
The Company classifies post-employment benefit plans as either defined contribution 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 is 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 remuneration 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*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XX) Employee Remuneration** (*Continued*)4. *Accounting treatment of termination benefits*

When providing termination benefits to employees, the employee remuneration liabilities arising from the recognition of termination benefits 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 employees' 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 included in current profit or loss or the relevant costs of assets.

(XXI) 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*)
2023

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

(XXII) 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*)

2023

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

(XXII) 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 the Company expects to be entitled in exchange for transferring 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 goods 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 products 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*)
2023

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

(XXIII) 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 an asset. Costs of obtaining a contract which are amortised over a period of not more 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 an asset:

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.

(XXIV) Contract Assets and 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 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.

Notes to the Financial Statements (*Continued*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXV) 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 current 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.

Notes to the Financial Statements (*Continued*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXV) Government Grants** (*Continued*)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.

(XXVI) 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 (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.
2. 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 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 income tax expense or profit, excluding income tax arising from: (1) business combination; (2) transactions or items directly recognised in owners' equity.
5. When all of the following conditions are satisfied, the deferred income tax assets and deferred income tax liabilities are presented in the net amount after offsetting: (1) the Company has the legal right to settle current income tax assets and current income tax liabilities on a net basis; (2) the deferred income tax assets and deferred income tax liabilities are related to the income tax levied on the same taxable entity by the same taxation authority or related to different taxable entities, but during the future period when each of the significant deferred income tax assets and deferred income tax liabilities is reversed, the subject taxable entity intends to settle the current income tax assets and current income tax liabilities on a net basis, or simultaneously obtain the assets and settle the debts.

Notes to the Financial Statements (*Continued*)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (*Continued*)**(XXVII) 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.

(2) Lease liabilities

On the commencement date of the lease term, 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, 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.

Notes to the Financial Statements (*Continued*)
2023

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

(XXVII) Lease (*Continued*)

1. *The Company as a lessee (Continued)*

(2) Lease liabilities (Continued)

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 a 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 Standards 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.

(XXVIII) Segment Reporting

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

1. The component is able to generate income and incur expenses in daily activities;
2. The management is able to regularly evaluate the operating results of the component to determine its allocation of resources and assess its performance;
3. The financial position, operating results, cash flow and other relevant accounting information of the component can be obtained through analysis.

Notes to the Financial Statements (Continued)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)

(XXIX) 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. The effects of revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods.

Key sources of estimation uncertainty are as follows:

1. *Recognition of deferred income tax assets*

As stated in Note III(XXVI) 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 utilised.

2. *Impairment of financial instruments and contract assets*

As stated in Notes III(X) and (XI) 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 amortised cost (notes receivable, 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 III(XII) to these financial statements, at the balance sheet date, the Company's 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.

Notes to the Financial Statements (*Continued*)

2023

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

(XXIX) Significant Accounting Judgments and Estimates (*Continued*)

4. Impairment of long-term assets

As stated in Note III(XVIII) to these financial statements, 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 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.

(XXX) Changes in Significant Accounting Policies

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

- The Company has adopted the provision of “Accounting treatment of the deferred income tax relating to assets and liabilities arising from a single transaction to which initial recognition exemption does not apply” under Interpretation No. 16 of the Accounting Standards for Business Enterprises issued by the Ministry of Finance since 1 January 2023, and has made adjustments in accordance with the provision to single transactions to which such provision applies that occurred between the beginning of the earliest period presented in the financial statements in which such provision was first adopted and the first adoption date. For taxable temporary differences and deductible temporary differences arising from lease liabilities and right-of-use assets recognised at the beginning of the earliest period presented in the financial statements in which the such provision was first adopted as a result of a single transaction to which the provision applies, as well as the recognition of provision for liabilities related to abandonment obligations and the corresponding related assets, in accordance with such provision and the provision under the Accounting Standards for Business Enterprises No. 18 – Income Tax, the cumulative effect amount would be adjusted to the opening retained earnings and other related financial statement items in the earliest period presented in the financial statements. The details of adjustments are as follows:

Statement items subject to significant impact	Affected amount	Notes
Items in the balance sheet as at 31 December 2022		
Deferred income tax assets	4,203.50	
Surplus reserve	420.35	
Undistributed profits	3,783.15	
Items in the income statement during 2022		
Income tax expenses	-64.52	

Notes to the Financial Statements (Continued)

2023

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (Continued)**(XXX) Changes in Significant Accounting Policies** (Continued)

Changes in accounting policies arising from alteration in accounting standards for business enterprises (Continued)

- The Company has early adopted the provision of “Accounting treatment of sale and leaseback transactions” under Interpretation No. 17 of the Accounting Standards for Business Enterprises issued by the Ministry of Finance since 2023. Such changes in the accounting policies have no impact on the Company’s financial statements.

IV. TAXATION**(I) Major Taxes and Tax Rates**

Types of tax	Bases	Tax rates
Value added tax	Value added tax payable is calculated by calculating the output tax based on revenue from sales of goods or rendering of taxable services in accordance with tax law, net of input tax that is allowed to be deducted for the current period	13%, 9%, 6%
Property tax	For ad valorem taxes, the tax is calculated based on 1.2% of the residual value of the original value of property after a deduction of 30%	1.2%
Urban maintenance and construction tax	Turnover tax actually paid	5%, 7%
Education surcharge	Turnover tax actually paid	3%
Local education surcharge	Turnover tax actually paid	2%
Corporate income tax	Taxable income	15%, 16.50%, 20%, 25%

Description of income tax rates applicable to taxable entities with different tax rates

Name of taxable entities	Income tax rates
The Company	15%
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)	15%
Yichen Industrial (Hong Kong) Trading Co., Limited (hereinafter referred to as Yichen Hong Kong Trading).	16.50%
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)	20%
Other taxable entities excluding the above-mentioned	25%

Notes to the Financial Statements (Continued)

2023

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

1. On 18 September 2021, the Company obtained the High-tech Enterprise Certificate (No. GR202113001359), which was approved after review and valid for three years. The Company was subject to corporate income tax rate of 15% for 2023.
2. According to the Announcement on the Filing of the Second Batch of High-Tech Enterprises Accredited by the Accreditation Authorities in Hebei Province in 2023 (《對河北省認定機構2023年認定報備的第二批高新技術企業進行備案的公告》) issued by the National High and New Technology Enterprise Accreditation and Administration Leading Group Office (全國高新技術企業認定管理工作領導小組辦公室) on 5 December 2023, Xingtai Juneng, the subsidiary of the Company, was approved for registering as a high-tech enterprise (Certificate No. GR202313002740), and was therefore subject to corporate income tax at 15% in 2023.
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. 6 [2023]) 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2023年第6號)), from 1 January 2023 to 31 December 2024, 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 25% of 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 2023.
4. According to the Announcement of the Ministry of Finance and the State Taxation Administration on Additional Value-Added Tax Credit Policy for Advanced Manufacturing Enterprises (Announcement No. 43 (2023) of the Ministry of Finance and the State Taxation Administration) (《財政部稅務總局關於先進製造業企業增值稅加計抵減政策的公告》(財政部稅務總局公告2023年第43號)), from 1 January 2023 to 31 December 2027, advanced manufacturing enterprises are allowed to credit input tax creditable for the current period plus 5% thereof against value-added tax payable. The Company and Xingtai Juneng, which are high-tech enterprises being qualified as advanced manufacturing enterprises, were entitled to enjoy the above additional value-added tax credit policy for advanced manufacturing enterprises in 2023.

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes to the Consolidated Balance Sheet

1. Monetary funds

(1) Breakdown

Items	Closing balance	Closing balance of last year
Cash on hand	43,261.25	57,132.09
Bank deposits	89,017,731.22	79,460,013.48
Other monetary funds	43,026,489.56	80,418,213.58
Total	132,087,482.03	159,935,359.15
Including: total funds placed in overseas	723,117.56	201,513.25

(2) Other description

Items	Closing balance	Closing balance of last year
Judicially frozen funds		2,941,731.44
Other monetary funds	43,026,489.56	80,418,213.58
Including: Performance bond	32,079,754.08	53,675,915.15
Deposits for bank acceptance notes	8,978,405.78	25,331,612.92
Migrant workers' advance deposits	968,066.53	966,239.20
Asset management plan custodian bank and fund in stock accounts	1,000,263.17	444,446.31
Sub-total	43,026,489.56	83,359,945.02

As at 31 December 2023, other monetary funds have restricted usage except for asset management plan custodian bank and fund in stock accounts.

Notes to the Financial Statements (*Continued*)
2023

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

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

2. *Financial assets held for trading*

(1) Breakdown

Items	Closing balance	Closing balance of last year
Financial assets at fair value through profit or loss for the current period	101,346,207.48	207,524,486.40
Including: shares	101,346,207.48	207,524,486.40
Total	101,346,207.48	207,524,486.40

(2) Other description

At the end of 2023 and the end of 2022, shares represented the shares of Hong Kong listed companies purchased by the Company.

3. *Notes receivable*

(1) Breakdown

Items	Closing balance	Closing balance of last year
Bank acceptance notes	67,160,111.33	61,337,627.24
Trade acceptance notes	5,074,325.40	6,001,384.09
Total	72,234,436.73	67,339,011.33

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Notes receivable (Continued)

(2) Provision for bad debt

1) Breakdown by category

Categories	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made as per portfolio	72,783,197.64	100.00	548,761.91	0.75	72,234,435.73
Including: Bank acceptance notes	67,160,111.33	92.27			67,160,111.33
Trade acceptance notes	5,623,086.31	7.73	548,761.91	9.76	5,074,324.40
Total	72,783,197.64	100.00	548,761.91	0.75	72,234,435.73

Categories	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	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

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

Items	Book balance		Closing balance	
	Amount	Proportion (%)	Provision for bad debts	Percentage of provision (%)
Bank acceptance notes portfolio	67,160,111.33			
Trade acceptance notes portfolio	5,623,086.31		548,761.91	9.76
Sub-total	72,783,197.64		548,761.91	0.75

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

3. Notes receivable (Continued)

(3) Changes in provision for bad debt

Items	Opening balance	Changes in amount during the period				Closing balance
		Provision	Recovery or reversal	Write-off	Others	
Provision for bad debts made individually						
Provision for bad debts made as per portfolio	1,984,405.60	-1,435,643.69				548,761.91
Total	1,984,405.60	-1,435,643.69				548,761.91

(4) 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

Items	Amount derecognised at the end of the period	Amount not derecognised at the end of the period
Bank acceptance notes		59,985,339.01
Trade acceptance notes		3,003,086.31
Sub-total		62,988,425.32

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. Accounts receivable

(1) Breakdown

1) Breakdown by category

Categories	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Amount	Provision for bad debts Percentage of provision (%)	
Provision for bad debts made individually	11,473,696.11	0.81	11,473,696.11	100.00	
Provision for bad debts made as per portfolio	1,411,883,635.08	99.19	223,015,526.99	15.80	1,188,868,108.09
Total	1,423,357,331.19	100.00	234,489,223.10	16.47	1,188,868,108.09

Categories	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	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

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

Items	Book balance		Closing balance	
	Amount	Proportion (%)	Amount	Provision for bad debts Percentage of provision (%)
Grouped by payment	1,288,341,387.47		189,825,437.98	14.73
Grouped by retention monies	123,542,247.61		33,190,089.01	26.87
Sub-total	1,411,883,635.08		223,015,526.99	15.80

Notes to the Financial Statements (Continued)

2023

V. 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 – grouped by payment, 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	707,258,463.73	14,145,169.28	2.00
1 to 2 years	321,002,774.63	32,100,277.46	10.00
2 to 3 years	117,560,370.66	35,268,111.20	30.00
3 to 4 years	48,937,392.87	24,468,696.44	50.00
4 to 5 years	48,696,009.89	38,956,807.91	80.00
Over 5 years	44,886,375.69	44,886,375.69	100.00
Total	1,288,341,387.47	189,825,437.98	14.73

- 4) Accounts receivables – grouped by retention monies, 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	44,312,134.41	6,646,820.16	15.00
1 to 2 years	36,964,277.29	5,544,641.60	15.00
2 to 3 years	17,419,123.56	5,225,737.07	30.00
3 to 4 years	15,083,912.85	7,541,956.43	50.00
4 to 5 years	7,659,328.75	6,127,463.00	80.00
Over 5 years	2,103,470.75	2,103,470.75	100.00
Total	123,542,247.61	33,190,089.01	26.87

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. Accounts receivable (Continued)

(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	751,570,598.14	20,791,989.44	2.77	902,145,929.76	25,358,797.68	2.81
1 to 2 years	357,967,051.92	37,644,919.06	10.52	380,350,634.76	39,012,594.69	10.26
2 to 3 years	134,979,494.22	40,493,848.27	30.00	73,475,832.28	22,042,749.69	30.00
3 to 4 years	64,021,305.72	32,010,652.87	50.00	68,237,731.78	34,118,865.89	50.00
4 to 5 years	56,355,338.64	45,084,270.91	80.00	26,304,952.87	21,322,691.06	81.06
Over 5 years	58,463,542.55	58,463,542.55	100.00	52,320,172.36	52,320,172.36	100.00
Total	1,423,357,331.19	234,489,223.10	16.47	1,502,835,253.81	194,175,871.37	12.92

The ageing calculation of accounts receivable – grouped by retention monies portfolio starts at the expiry of retention monies, while the ageing calculation of accounts receivable – grouped by payment starts on the day when revenue is recognised and accounts receivable – payment occurs. The amount that occurs first has priority in settlement upon transfer of funds. The Company generally grants to customers a credit term based on the contract agreed between the Company and the customer. Overdue receivables are regularly reviewed by the management.

(3) Changes in provision for bad debt

Items	Opening balance	Changes in amount during the period				Closing balance
		Provision	Recovery or Reversal	Write-off	Others (Note)	
Provision for bad debts made individually	12,496,078.44	59,936.85	-469,909.97	-612,409.21		11,473,696.11
Provision for bad debts made as per portfolio	181,679,792.93	38,857,182.69		-372,048.10	2,850,599.47	223,015,526.99
Total	194,175,871.37	38,917,119.54	-469,909.97	-984,457.31	2,850,599.47	234,489,223.10

(Note) Other changes 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

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. Accounts receivable (Continued)

(4) Actual accounts receivable written off during the period

Item	Amount written off
Actual accounts receivable written off	984,457.31

(5) Top 5 entities by the amount of accounts receivable and contract assets

Name of entities	Book balance at the end of the period			Percentage of total closing balance of accounts receivable and contract assets (including contract assets presented in other non-current assets) (%)	Bad debt provision for accounts receivable and impairment provision for contract assets
	Accounts receivable	Contract assets (including contract assets presented in other non-current assets)	Sub-total		
Customer 1	170,933,281.51	22,108,917.10	193,042,198.61	12.39	42,137,869.57
Customer 2	91,330,966.66	18,815,840.35	110,146,807.01	7.07	10,020,766.37
Customer 3	69,983,304.42	14,055,133.69	84,038,438.11	5.39	7,903,399.74
Customer 4	77,857,650.00		77,857,650.00	5.00	14,226,053.92
Customer 5	71,096,180.31	3,741,904.24	74,838,084.55	4.80	2,190,429.04
Sub-total	481,201,382.90	58,721,795.38	539,923,178.28	34.64	76,478,518.64

5. Financing of receivables

(1) Breakdown

Item	Closing balance	Closing balance of last year
Bank acceptance notes	3,249,942.10	2,716,759.60
Total	3,249,942.10	2,716,759.60

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. *Financing of receivables* (Continued)

(2) Provision for impairment

1) Breakdown by category

Categories	Costs		Closing balance Accumulated credit impairment provision recognised		Book value
	Amount	Proportion (%)	Amount	Percentage of	
				provision (%)	
Provision for impairment made as per portfolio	3,249,942.10	100.00			3,249,942.10
Including: Bank acceptance notes	3,249,942.10	100.00			3,249,942.10
Total	3,249,942.10	100.00			3,249,942.10

Categories	Costs		Closing balance of last year Accumulated credit impairment provision recognised		Book value
	Amount	Proportion (%)	Amount	Percentage of	
				provision (%)	
Provision for impairment made as per portfolio	2,716,759.60	100.00			2,716,759.60
Including: Bank acceptance notes	2,716,759.60	100.00			2,716,759.60
Total	2,716,759.60	100.00			2,716,759.60

2) Financing of receivables with provision for impairment made as per portfolio

Item	Costs	Closing balance Accumulated credit impairment provision recognised	
		Percentage of provision (%)	
Bank acceptance notes portfolio	3,249,942.10		
Sub-total	3,249,942.10		

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Financing of receivables (Continued)

- (3) Financing of receivables 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	53,663,474.49
Sub-total	53,663,474.49

As the acceptors of the bank acceptance notes are commercial banks with relatively high credit ratings, the possibility of the bank acceptance notes being dishonoured by the banks when they become due is low, and therefore, the Company derecognises such bank acceptance notes that have been endorsed or discounted. However, if such notes are not honoured when they become due, the Company will still bear joint liability to bill holders in accordance with the provisions of the Negotiable Instruments Law.

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
Within 1 year	18,133,827.49	91.58	18,133,827.49	37,402,594.60	98.31		37,402,594.60
1 to 2 years	1,522,526.98	7.69	1,522,526.98	642,018.41	1.69		642,018.41
2 to 3 years	145,025.36	0.73	145,025.36				
Total	19,801,379.83	100.00	19,801,379.83	38,044,613.01	100.00		38,044,613.01

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. Prepayments (Continued)

(2) Top 5 entities by the amount of prepayments

Name of entities	Book balance	Percentage of the balance of prepayments (%)
Supplier 1	5,547,259.77	28.01
Supplier 2	2,632,726.10	13.30
Supplier 3	2,602,803.14	13.14
Supplier 4	2,575,780.26	13.01
Supplier 5	1,566,740.00	7.92
Sub-total	14,925,309.27	75.38

7. Other receivables

(1) Classification by nature of amounts

Nature of amounts	Book balance at the end of the period	Book balance at the end of last year
Security deposits	12,215,694.35	11,904,651.44
Imprest	423,779.05	543,164.65
Others	275,649.11	3,013,514.82
Total	12,915,122.51	15,461,330.91

(2) Ageing Status

Ageing	Book balance at the end of the period	Book balance at the end of last year
Within 1 year	4,018,985.80	8,406,096.21
1 to 2 years	3,005,764.75	985,752.00
2 to 3 years	626,763.26	2,135,115.31
3 to 4 years	2,132,815.31	1,357,194.39
4 to 5 years	973,620.39	740,000.00
Over 5 years	2,157,173.00	1,837,173.00
Total	12,915,122.51	15,461,330.91

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Other receivables (Continued)

(3) Provision for bad debts

1) Breakdown by category

Categories	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	5.89	761,173.00	100.00	
Provision for bad debts made as per portfolio	12,153,949.51	94.11	2,117,738.57	17.42	10,036,210.94
Total	12,915,122.51	100.00	2,878,911.57	22.29	10,036,210.94

Categories	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	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

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

Portfolios	Book balance		Closing balance	
	Amount	Proportion (%)	Provision for bad debts	Percentage of provision (%)
Security deposits receivable portfolio	11,454,521.35		2,100,027.76	18.33
Imprest receivable portfolio	423,779.05		11,021.42	2.60
Other portfolios	275,649.11		6,689.39	2.43
Sub-total	12,153,949.51		2,117,738.57	17.42

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Other receivables (Continued)

(4) Changes in provision for bad debts

Items	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss in the following 12 months	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Opening balance	166,263.76	607,413.70	2,221,770.20	2,995,447.66
Opening balance for the period	–	–	–	
– Transfer to stage 2	-4,537.13	4,537.13		
– Transfer to stage 3	-1,600.00	-28,061.33	29,661.33	
– Reverse to stage 2				
– Reverse to stage 1				
Provision for the period	-44,704.52	46,551.67	-118,383.24	-116,536.09
Recovery or reversal for the period				
Write-off for the period				
Other changes				
Closing balance	115,422.11	630,441.17	2,133,048.29	2,878,911.57
Percentage of provision for bad debts at the end of the period (%)	2.00	13.60	85.20	22.29

Notes to the Financial Statements (Continued)
2023

V. 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 entities	Nature of amounts	Book balance at the end of the period	Ageing	Percentage of the balance of other receivables (%)	Provision for bad debts at the end of the period
Customer 6	Security deposits	200,000.00	Within 1 year	1.55	4,000.00
		999,298.74	1 to 2 years	7.74	149,894.81
		986,915.31	3 to 4 years	7.64	89,537.30
Sub-total		2,186,214.05		16.93	243,432.11
Customer 7	Security deposits	41,000.00	1 to 2 years	0.32	820.00
		719,000.00	3 to 4 years	5.57	52,300.00
		420,000.00	4 to 5 years	3.25	78,600.00
Sub-total		1,180,000.00		9.14	131,720.00
Customer 8	Security deposits	761,173.00	Over 5 years	5.89	761,173.00
Customer 9	Security deposits	120,000.00	Within 1 year	0.93	2,400.00
		480,000.00	1 to 2 years	3.72	9,600.00
Sub-total		600,000.00		4.65	12,000.00
Customer 10	Security deposits	200,000.00	4 to 5 years	1.55	30,000.00
		400,000.00	Over 5 years	3.10	60,000.00
Sub-total		600,000.00		4.65	90,000.00
Total		5,327,387.05		41.25	1,238,325.11

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

8. Inventories

(1) Breakdown

Items	Closing balance			Closing balance of last year		
	Book balance	Provisions for impairment	Book value	Book balance	Provisions for impairment	Book value
Raw materials	51,495,769.48	3,036,903.21	48,458,866.27	56,758,574.89	745,591.71	56,012,983.18
Work in process	50,550,949.18	616,293.41	49,934,655.77	91,451,571.91		91,451,571.91
Finished goods	256,908,528.38	17,876,106.79	239,032,421.59	214,556,253.74	18,871,391.39	195,684,862.35
Delivered goods	1,975,696.73		1,975,696.73	3,848,962.95		3,848,962.95
Materials for consigned processing	15,899,550.04		15,899,550.04	7,922,132.64		7,922,132.64
Total	376,830,493.81	21,529,303.41	355,301,190.40	374,537,496.13	19,616,983.10	354,920,513.03

(2) Provisions for inventory impairment

1) Breakdown

Items	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Provision	Others	Reversal or write-off	Others	
Raw materials	745,591.71	2,695,785.86		404,474.36		3,036,903.21
Work in process		616,293.41				616,293.41
Finished goods	18,871,391.39	5,776,084.49		6,771,369.09		17,876,106.79
Total	19,616,983.10	9,088,163.76		7,175,843.45		21,529,303.41

Notes to the Financial Statements (Continued)
2023

V. 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 realisable value, the reasons for reversal or write-off of provisions for inventory impairment during the period

Items	Specific bases for determining net realisable value	Reasons for reversal of provisions for inventory impairment	Reasons for write-off of provisions for inventory impairment
Raw materials	The net realisable value of relevant finished 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	Inventories with provisions for impairment were consumed during the period
Work in process	The net realisable value of relevant finished 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	Inventories with provisions for impairment were consumed during the period
Finished goods	The net realisable value of relevant finished 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	Inventories with provisions for impairment were sold during the period

Notes to the Financial Statements (Continued)

2023

V. 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	45,804,242.26	6,870,636.34	38,933,605.92	33,038,313.28	4,955,746.99	28,082,566.29
Total	45,804,242.26	6,870,636.34	38,933,605.92	33,038,313.28	4,955,746.99	28,082,566.29

(2) Provision for impairment

1) Breakdown by category

Categories	Book balance		Closing balance Provision for impairment		Book value
	Amount	Proportion (%)	Amount	Percentage of provision (%)	
Provision for impairment made individually					
Provision for impairment made as per portfolio	45,804,242.26	100.00	6,870,636.34	15.00	38,933,605.92
Total	45,804,242.26	100.00	6,870,636.34	15.00	38,933,605.92

Categories	Book balance		Closing balance of last year Provision for impairment		Book value
	Amount	Proportion (%)	Amount	Percentage of provision (%)	
Provision for impairment made individually					
Provision for impairment made as per portfolio	33,038,313.28	100.00	4,955,746.99	15.00	28,082,566.29
Total	33,038,313.28	100.00	4,955,746.99	15.00	28,082,566.29

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. Contract assets (Continued)

(2) Provision for impairment (Continued)

2) Contract assets with provision for impairment made as per portfolio

Item	Closing balance		
	Book balance	Provision for impairment	Percentage of provision (%)
Grouped by retention monies	45,804,242.26	6,870,636.34	15.00
Sub-total	45,804,242.26	6,870,636.34	15.00

(3) Changes in provision for impairment

Items	Opening balance	Changes in amount during the period				Closing balance
		Provision	Recovery or reversal	Write-off	Others (Note)	
Provision for impairment made individually						
Provision for impairment made as per portfolio	4,955,746.99	-3,795,758.90			5,710,648.25	6,870,636.34
Total	4,955,746.99	-3,795,758.90			5,710,648.25	6,870,636.34

(Note) Other changes during 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 impairment provision for contract assets, and the transfer of the impairment provision for matured retention monies from impairment provision for contract assets to bad debt provision for accounts receivable

10. Other current assets

Items	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	16,966,945.52		16,966,945.52	74.26		74.26
Input value added tax to be certified	2,632,409.84		2,632,409.84	3,956,421.09		3,956,421.09
Prepaid taxes	6,858,137.83		6,858,137.83	2,476,707.04		2,476,707.04
Total	26,457,493.19		26,457,493.19	6,433,202.39		6,433,202.39

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

11. Long-term equity investments

(1) Classification

Items	Closing balance		Closing balance of last year			
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in joint ventures						
Investments in associates	281,806,908.78		281,806,908.78	241,896,914.68		241,896,914.68
Total	281,806,908.78		281,806,908.78	241,896,914.68		241,896,914.68

(2) Breakdown

Investee	Opening balance		Increase or decrease during the period			
	Book value	Provision for impairment	Additional investments	Decrease in investments	Investment profit or loss recognised using equity method	Adjustment to other comprehensive income
Associate						
Hebei Tiekexi Yichen New Material Technology Co., Ltd.	241,896,914.68				34,361,625.08	
Total	241,896,914.68				34,361,625.08	

Investee	Increase or decrease during the period				Closing balance	
	Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others	Book value	Provision for impairment
Associate						
Hebei Tiekexi Yichen New Material Technology Co., Ltd.	311,723.10	-7,105,000.00		12,341,645.92	281,806,908.78	
Total	311,723.10	-7,105,000.00		12,341,645.92	281,806,908.78	

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. Other equity instruments investment

(1) Breakdown

Item	Opening balance	Increase or decrease during the period			Others
		Additional investments	Decrease in investments	Gains and losses included in other comprehensive income for the period	
Hebei Electric Power Trading Center Co., Ltd.* (河北電力交易中心有限公司)	8,197,392.29				
Total	8,197,392.29				

Item	Closing balance	Dividend income recognised for the period	Gains and losses accumulated in other comprehensive income at the end of the period
Hebei Electric Power Trading Center Co., Ltd.	8,197,392.29		-123,507.71
Total	8,197,392.29		-123,507.71

(2) Reasons for designation as an equity instrument investment at fair value through other comprehensive income

The Company holds 4.65% 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, as the Company intends to hold the investment on a long-term basis in line with its investment strategy, the investment is designated as an equity instrument investment at fair value through other comprehensive income.

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

13. Fixed assets

(1) Breakdown

Items	Buildings and structures	Machinery and equipment	Transportation vehicles	Electronic equipment	Other equipment	Total
Original book value						
Opening 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
Increase during the period	19,050,444.68	93,682,239.61	528,530.09	1,957,802.46	389,997.43	115,609,014.27
1) Purchase	380,482.54	2,366,857.30	528,530.09	225,275.19	389,997.43	3,891,142.55
2) Transfer from construction in progress	18,669,962.14	91,315,382.31		1,732,527.27		111,717,871.72
Decrease during the period		1,333,243.56		611,287.99	46,850.00	1,991,381.55
1) Disposal or retirement		1,333,243.56		611,287.99	46,850.00	1,991,381.55
Closing balance	585,676,337.70	376,698,723.78	18,299,575.92	20,087,747.47	3,222,419.40	1,003,984,804.27
Accumulated depreciation						
Opening 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
Increase during the period	27,379,205.48	19,683,507.72	445,240.68	3,367,789.94	126,519.52	51,002,263.34
1) Provision	27,379,205.48	19,683,507.72	445,240.68	3,367,789.94	126,519.52	51,002,263.34
Decrease during the period		1,129,565.45		582,471.17	44,507.50	1,756,544.12
1) Disposal or retirement		1,129,565.45		582,471.17	44,507.50	1,756,544.12
Closing balance	90,721,396.20	173,950,960.94	16,402,205.35	10,680,392.44	2,510,209.46	294,265,164.39
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	494,954,941.50	202,747,762.84	1,897,370.57	9,407,355.03	712,209.94	709,719,639.88
Opening 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

Notes to the Financial Statements (Continued)
2023

V. 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

Items	Book value	Reason for not obtaining certificate of title
Office buildings and warehouses for casting	325,389.75	Area verification
Office buildings for passenger railway line	2,311,614.69	Area verification
Power-coating workshop	1,971,820.16	Under process
Warehouse for equipment and finished goods	3,217,680.40	Under process
Comprehensive experiment building for the R&D and manufacturing project of high-speed railway heavy-haul fastening accessory systems	31,287,763.24	Under process
Workshops and office buildings for sleeper	3,754,372.15	Under process
Sub-total	42,868,640.39	

14. Project under construction

(1) Breakdown

Items	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	28,141,107.30		28,141,107.30	65,115,132.25		65,115,132.25
Andafa AX lean manufacturing management system				1,026,663.44		1,026,663.44
Wire production line				36,283,185.84		36,283,185.84
Upgrade and renovation of flux cored wire south workshop				15,184,227.70		15,184,227.70
Solid wire resource utilisation and treatment project				5,398,230.09		5,398,230.09
Railway locomotive project	122,945,357.17		122,945,357.17	71,549,961.93		71,549,961.93
Equipment of welding wire north workshop	1,282,873.33		1,282,873.33			
Sporadic projects	4,768,094.72		4,768,094.72	5,149,122.38		5,149,122.38
Total	157,137,432.52		157,137,432.52	199,706,523.63		199,706,523.63

Notes to the Financial Statements (Continued)

2023

V. 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 names	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	65,115,132.25	15,193,865.68	52,167,890.63		28,141,107.30
Wire production line	41,000,000.00	36,283,185.84		36,283,185.84		
Railway locomotive project	500,000,000.00	71,549,961.93	51,399,794.24	4,399.00		122,945,357.17
Sub-total		172,948,280.02	66,593,659.92	88,455,475.47		151,086,464.47

Project name	Percentage of accumulated project input to budget (%)	Progress of project (%)	Accumulated amount of capitalised interest	Amount of capitalised interest 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	77.00	77.00				Raised funds and own funds
Wire production line	100.00	100.00				Own funds
Railway locomotive project	36.00	36.00				Own funds
Sub-total						

Notes to the Financial Statements (Continued)
2023**V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)15. *Right-of-use assets*

Items	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	3,331,851.73	3,331,851.73
1) Disposal	3,331,851.73	3,331,851.73
Closing balance		
Accumulated depreciation		
Opening balance	2,732,402.79	2,732,402.79
Increase during the period	599,448.94	599,448.94
1) Provision	599,448.94	599,448.94
Decrease during the period	3,331,851.73	3,331,851.73
1) Disposal	3,331,851.73	3,331,851.73
Closing balance		
Book value		
Closing book value		
Opening book value	599,448.94	599,448.94

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

16. Intangible assets

(1) Breakdown

Items	Land use rights	Software	Total
Original book value			
Opening balance	157,288,343.51	2,477,183.84	159,765,527.35
Increase during the period	391,616.91	49,245.29	440,862.20
1) Purchase	391,616.91	49,245.29	440,862.20
Decrease during the period			
1) Disposal			
Closing balance	157,679,960.42	2,526,429.13	160,206,389.55
Accumulated amortisation			
Opening balance	16,894,432.21	1,498,373.87	18,392,806.08
Increase during the period	3,163,051.77	354,684.02	3,517,735.79
1) Provision	3,163,051.77	354,684.02	3,517,735.79
Decrease during the period			
1) Disposal			
Closing balance	20,057,483.98	1,853,057.89	21,910,541.87
Provision for impairment			
Opening balance			
Increase during the period			
1) Provision			
Decrease during the period			
1) Disposal			
Closing balance			
Book value			
Closing book value	137,622,476.44	673,371.24	138,295,847.68
Opening book value	140,393,911.30	978,809.97	141,372,721.27

(2) Analysis of book value of the land use rights

Item	Closing balance	Closing balance of last year
Outside Hong Kong		
Interim lease	137,622,476.44	140,393,911.30
Sub-total	137,622,476.44	140,393,911.30

Notes to the Financial Statements (Continued)
2023

V. 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	40,872,827.28	73,407,626.73	114,280,454.01	35,207,801.11	79,072,652.90
Total	114,280,454.01	40,872,827.28	73,407,626.73	114,280,454.01	35,207,801.11	79,072,652.90

(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	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	35,207,801.11	5,665,026.17				40,872,827.28
Total	35,207,801.11	5,665,026.17				40,872,827.28

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

17. Goodwill (Continued)

- (4) Information about the asset group or asset group portfolio that goodwill belongs to
Asset group or asset group portfolio

Name of asset group or asset group portfolio	Composition and basis of asset group or asset group portfolio	Operating segments and basis	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
Xingtai Juneng	Asset group of Xingtai Juneng, such asset group is able to benefit from the synergies of the enterprise combination	Not available, the Company has no operating segments	Yes

- (5) Specific determination method of recoverable amount

Recoverable amount is determined based on the net amount of fair value less disposal expenses

Items	Book value of asset group or asset group portfolio, including goodwill	Recoverable amount	Provision for impairment for the period
Xingtai Juneng	120,254,315.61	113,780,000.00	5,665,026.17
Sub-total	120,254,315.61	113,780,000.00	5,665,026.17

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

18. Long-term deferred expenses

Item	Opening balance	Increase in the period	Amortisation during the period	Other decreases	Closing balance
Renovation expenses		917,494.63	61,166.15		856,328.48
Total		917,494.63	61,166.15		856,328.48

19. Deferred income tax assets and deferred income tax liabilities

(1) Non-offsetting deferred income tax assets

Items	Closing balance		Closing balance of last year (Restated)	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for impairment of assets	277,651,206.30	41,647,680.94	237,719,430.68	35,657,914.60
Provisions	49,583,160.91	7,437,474.14	45,594,804.02	6,839,220.60
Unrealised profits from internal transactions	4,888,720.41	733,308.06	3,751,992.38	562,798.86
Accounts payable over 3 years	7,687,169.55	1,153,075.44	3,010,621.46	451,593.22
Deferred income	4,478,466.67	671,770.00		
Lease liabilities			627,472.25	94,120.84
Total	344,288,723.84	51,643,308.58	290,704,320.79	43,605,648.12

(2) Non-offsetting deferred income tax liabilities

Items	Closing balance		Closing balance of last year (Restated)	
	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	1,934,787.72	290,218.17	2,095,395.06	314,309.27
Accelerated depreciation of fixed assets	37,114,791.63	5,567,218.75	66,987,540.21	10,048,131.03
Changes in fair value	86,103,090.93	12,915,463.64	146,902,266.75	22,035,340.01
Right-of-use assets			599,448.94	89,917.34
Total	125,152,670.28	18,772,900.56	216,584,650.96	32,487,697.65

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

19. Deferred income tax assets and deferred income tax liabilities (Continued)

(3) Deferred income tax assets or liabilities presented on a net basis after offsetting

Items	Closing balance		Closing balance of last year (Restated)	
	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	18,482,682.39	33,160,626.19	32,173,388.38	11,432,259.74
Deferred income tax liabilities	18,482,682.39	290,218.17	32,173,388.38	314,309.27

(4) Breakdown of unrecognised deferred income tax assets

Items	Closing balance	Closing balance of last year
Deductible temporary differences	2,078,351.82	75,922.39
Deductible losses	4,371,106.39	171,174.98
Total	6,449,458.21	247,097.37

(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
2026	170,385.34	170,385.34	
2027	758.14	758.14	
2028	4,195,702.93		
Indefinite	4,259.98	31.50	
Total	4,371,106.39	171,174.98	

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

20. Other non-current assets

(1) Breakdown

Items	Book 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	12,289,123.57		12,289,123.57	1,972,241.31		1,972,241.31
Contract assets	89,418,145.24	13,412,721.79	76,005,423.45	93,779,322.27	14,066,898.35	79,712,423.92
Total	101,707,268.81	13,412,721.79	88,294,547.02	95,751,563.58	14,066,898.35	81,684,665.23

(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
Grouped by retention monies	89,418,145.24	13,412,721.79	76,005,423.45	93,779,322.27	14,066,898.35	79,712,423.92
Sub-total	89,418,145.24	13,412,721.79	76,005,423.45	93,779,322.27	14,066,898.35	79,712,423.92

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

20. Other non-current assets (Continued)

(2) Contract assets (Continued)

2) Provision for impairment

① Breakdown by category

Categories	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Amount	Percentage of provision (%)	
Provision for impairment made individually					
Provision for impairment made as per portfolio	89,418,145.24	100.00	13,412,721.79	15.00	76,005,423.45
Total	89,418,145.24	100.00	13,412,721.79	15.00	76,005,423.45

Categories	Book balance		Closing balance of last year		Book value
	Amount	Proportion (%)	Amount	Percentage of provision (%)	
Provision for impairment made individually					
Provision for impairment made as per portfolio	93,779,322.27	100.00	14,066,898.35	15.00	79,712,423.92
Total	93,779,322.27	100.00	14,066,898.35	15.00	79,712,423.92

② Contract assets with impairment provisions made as per portfolio

Item	Closing balance		Percentage of provision (%)
	Book balance	Impairment provision	
Retention monies due after one year	89,418,145.24	13,412,721.79	15.00
Sub-total	89,418,145.24	13,412,721.79	15.00

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

20. Other non-current assets (Continued)

(2) Contract assets (Continued)

3) Changes in provision for impairment

Items	Opening balance	Changes in amount during the period				Closing balance
		Provision	Recovery or Reversal	Write-off	Others (Note)	
Provision for impairment made individually						
Provision for impairment made as per portfolio	14,066,898.35	7,907,071.16			-8,561,247.72	13,412,721.79
Total	14,066,898.35	7,907,071.16			-8,561,247.72	13,412,721.79

(Note) Other changes during 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

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

21. Assets with restrictions on ownership or use rights

Breakdown

(1) Restrictions on assets at the end of the period

Items	Book balance at the end of the period	Book value at the end of the period	Types of restriction	Reasons for restriction
Monetary capital	42,026,226.39	42,026,226.39	Pledged and others	Security deposits, migrant workers' advance deposits
Notes receivable	62,988,425.32	62,704,643.04	Pledged	Notes endorsed and transferred but not yet derecognised
Accounts receivable	64,197,918.63	54,738,393.61	Pledged	Proof for accounts receivable that were endorsed and discounted but not yet derecognised
Contract assets	500,000.00	425,000.00	Pledged	Proof for accounts receivable that were transferred and discounted but not yet derecognised
Fixed assets	339,581,175.37	287,065,157.26	Secured	Pledged security
Construction in progress	12,647,007.02	12,647,007.02	Secured	Pledged security
Intangible assets	96,138,778.16	80,343,007.04	Secured	Pledged security
Other non-current assets	44,164.62	37,539.93	Pledged	Proof for accounts receivable that were endorsed and discounted but not yet derecognised
Total	618,123,695.51	539,986,974.29		

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

21. *Assets with restrictions on ownership or use rights* (Continued)

Breakdown (Continued)

(2) Restrictions on assets at the end of last year

Items	Book balance at the end of last year	Book value at the end of last year	Type of restriction	Reason for restriction
Monetary capital	82,915,498.71	82,915,498.71	Pledged, frozen and others	Security deposits, migrant workers' advance deposits and judicially frozen funds
Notes receivable	61,411,721.84	61,261,721.84	Pledged	Notes endorsed and transferred but not yet derecognised
Accounts receivable	17,675,544.13	13,637,735.87	Pledged	Proof for accounts receivable that were endorsed and discounted but not yet derecognised
Contract assets	435,870.84	370,490.22	Pledged	Proof for accounts receivable that were endorsed and discounted but not yet derecognised
Fixed assets	335,617,997.07	299,370,169.94	Secured	Pledged security
Construction in progress	8,410,314.83	8,410,314.83	Secured	Pledged security
Intangible assets	95,776,262.45	81,912,800.23	Secured	Pledged security
Other non-current assets	54,033.05	45,928.09	Pledged	Proof for accounts receivable that were endorsed and discounted but not yet derecognised
Total	602,297,242.92	547,924,659.73		

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

22. Short-term borrowings

Items	Closing balance	Closing balance of last year
Secured and guaranteed borrowings	50,000,000.00	5,000,000.00
Secured borrowings	5,000,000.00	20,000,000.00
Guaranteed borrowings	50,000,000.00	
Credit borrowings	91,500,000.00	155,000,000.00
Pledged borrowings	1,645,042.00	2,639,573.25
Total	198,145,042.00	182,639,573.25

23. Bills payable

Item	Closing balance	Closing balance of last year
Bank acceptance notes	32,594,685.72	73,801,170.00
Total	32,594,685.72	73,801,170.00

24. Accounts payable

(1) Breakdown

Items	Closing balance	Closing balance of last year
Payables for materials	280,897,180.99	296,364,959.98
Payables for technology transfer	49,583,160.91	45,594,804.02
Payables for transportation	12,324,523.06	20,723,140.34
Payables for electricity and others	7,544,541.12	11,750,891.51
Total	350,349,406.08	374,433,795.85

(2) Ageing analysis

Ageing	Closing balance
Within 1 year	280,977,430.84
Over 1 year	69,371,975.24
Sub-total	350,349,406.08

Notes to the Financial Statements (*Continued*)
2023

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

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

24. *Accounts payable* (*Continued*)

(3) Material accounts payable ageing over 1 year

Item	Closing balance	Reasons of unsettlement or carrying-forward
Supplier 6	38,047,634.18	Not qualified for payment
Sub-total	38,047,634.18	

25. *Contract liabilities*

Item	Closing balance	Closing balance of last year
Receipts in advance	14,747,268.98	8,164,349.97
Total	14,747,268.98	8,164,349.97

26. *Payroll payable*

(1) Breakdown

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	6,178,583.11	97,001,668.22	97,173,364.85	6,006,886.48
Post-employment benefits – established withdrawal and deposit plan		10,112,948.89	10,109,867.13	3,081.76
Total	6,178,583.11	107,114,617.11	107,283,231.98	6,009,968.24

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(I) Notes to the Consolidated Balance Sheet** (Continued)

26. Payroll payable (Continued)

(2) Breakdown of short-term remuneration

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses, allowances and subsidies	6,080,998.67	79,384,318.61	79,553,646.38	5,911,670.90
Staff welfare		3,391,212.89	3,391,212.89	
Social insurance		8,909,334.65	8,908,056.80	1,277.85
Including: Medical insurance		7,430,379.92	7,429,240.37	1,139.55
Work injury insurance		607,062.40	606,980.10	82.30
Maternity insurance		871,892.33	871,836.33	56.00
Housing provident funds		3,864,088.00	3,862,863.00	1,225.00
Labour union funds and employee education funds	97,584.44	1,452,714.07	1,457,585.78	92,712.73
Sub-total	6,178,583.11	97,001,668.22	97,173,364.85	6,006,886.48

(3) Breakdown of established withdrawal and deposit plan

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance		9,687,445.83	9,684,483.37	2,962.46
Unemployment insurance premium		425,503.06	425,383.76	119.30
Sub-total		10,112,948.89	10,109,867.13	3,081.76

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.

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

27. Taxes payable

Items	Closing balance	Closing balance of last year
Value added tax	5,514,397.51	7,618,180.35
Corporate income tax	11,398,740.76	2,509,076.10
Withholding and payment of individual income tax	94,130.48	47,466.56
Urban maintenance and construction tax	547,791.69	789,264.43
Education surcharge	243,417.80	363,691.99
Local education surcharge	162,278.51	242,564.29
Stamp duty	230,257.93	93,834.87
Others	410,654.02	327,253.42
Total	18,601,668.70	11,991,332.01

28. Other payables

Items	Closing balance	Closing balance of last year
Payments for engineering equipment	18,902,906.34	34,446,954.19
Payable provisional collection		820,214.60
Others	3,613,843.95	3,112,227.50
Total	22,516,750.29	38,379,396.29

29. Non-current liabilities due within one year

Items	Closing balance	Closing balance of last year
Long-term borrowings due within one year	158,340,000.00	217,500,000.00
Lease liabilities due within one year		627,472.25
Total	158,340,000.00	218,127,472.25

30. Other current liabilities

Item	Closing balance	Closing balance of last year
VAT output to be recognised	3,905,143.52	5,468,153.98
Total	3,905,143.52	5,468,153.98

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

31. Long-term borrowings

(1) Breakdown

Items	Closing balance	Closing balance of last year
Secured borrowings		188,000,000.00
Secured and guaranteed borrowings	89,600,000.00	
Credit borrowings	60,710,000.00	9,500,000.00
Total	150,310,000.00	197,500,000.00

(2) Analysis of long-term borrowings by maturity date

Items	Closing balance	Closing balance of last year
Current or within 1 year	158,340,000.00	217,500,000.00
1-2 years	97,090,000.00	197,500,000.00
2-5 years	53,220,000.00	
Sub-total	308,650,000.00	415,000,000.00
Including: Long-term borrowings due within 1 year	158,340,000.00	217,500,000.00
Long-term borrowings due after 1 year	150,310,000.00	197,500,000.00

32. Provision for liabilities

Item	Closing balance	Closing balance of last year	Reasons
Pending litigation		451,731.44	Expected compensation expenses for pending litigation
Total		451,731.44	

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

33. Deferred income

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Reasons
Government grants	4,711,066.67		232,600.00	4,478,466.67	Asset-related government grants
Total	4,711,066.67		232,600.00	4,478,466.67	

34. Share capital

Items	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

35. Capital reserve

(1) Breakdown

Items	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	813,227,049.41			813,227,049.41
Other capital reserve		311,723.10		311,723.10
Total	813,227,049.41	311,723.10		813,538,772.51

(2) Other description

The increase in other capital reserve during the period was due to share of changes in other interests in associates based on the percentage of shareholding.

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

36. Other comprehensive income

Items	Amounts for the period							Closing 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			
	Opening balance	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	the parent after tax)	
Other comprehensive income that cannot be reclassified to profit or loss	-123,507.71							-123,507.71
Including: Changes in fair value of other equity instruments investment	-123,507.71							-123,507.71
Total other comprehensive income	-123,507.71							-123,507.71

37. Surplus reserve

(1) Breakdown

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	151,797,418.83	4,697,169.01		156,494,587.84
Total	151,797,418.83	4,697,169.01		156,494,587.84

(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)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

38. Undistributed profits

(1) Breakdown

Items	Amounts for the period	Amounts for the same period of last year
Undistributed profits at the end of last period before adjustment	1,047,160,490.09	950,041,243.47
Total adjustment of undistributed profits at the beginning of the period (“+” for increase, “-” for decrease)	3,783.15	3,725.08
Undistributed profits at the beginning of the period after adjustment	1,047,164,273.24	950,044,968.55
Add: Net profits attributable to owners of parent for the period	49,444,225.34	161,032,123.78
Less: Appropriation to statutory surplus reserve	4,697,169.01	14,262,267.09
Ordinary shares dividends payable	44,981,784.00	49,650,552.00
Undistributed profits at the end of the period	1,046,929,545.57	1,047,164,273.24

(2) Breakdown for adjustment of undistributed profits at the beginning of the period

RMB3,783.15 of undistributed profits at the beginning of the year was affected due to changes in accounting policies.

(3) Other description

According to the 2022 profit distribution plan considered and approved by the Board of the Company on 30 March 2023 and at the general meeting on 31 May 2023, the Company distributed a cash dividend of RMB0.0501 (tax inclusive) per Share, which amounted to total dividend distribution of RMB44,981,784.00. The said dividends have been paid.

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement

1. Operating revenue/operating cost

(1) Breakdown

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	1,187,291,567.34	899,796,743.07	1,250,235,518.73	951,091,831.50
Other operating revenue	8,854,931.42	4,998,779.02	8,030,679.22	4,664,400.87
Total	1,196,146,498.76	904,795,522.09	1,258,266,197.95	955,756,232.37
Including: Revenue from contracts with customers	1,196,146,498.76	904,795,522.09	1,258,266,197.95	955,756,232.37

(2) Breakdown of revenue

1) Breakdown of revenue from contracts with customers by type of goods or services

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Rail fastening system	692,228,836.01	437,102,442.75	870,451,899.28	609,406,540.67
Welding wire	382,208,708.17	373,769,974.07	311,209,866.64	293,744,212.39
Railway sleepers	112,854,023.16	88,924,326.25	68,573,752.81	47,941,078.44
Others	8,854,931.42	4,998,779.02	8,030,679.22	4,664,400.87
Sub-total	1,196,146,498.76	904,795,522.09	1,258,266,197.95	955,756,232.37

2) Breakdown of revenue from contracts with customers by region of operation

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Domestic	1,147,773,007.28	864,160,906.16	1,222,477,476.08	925,666,857.57
Overseas	48,373,491.48	40,634,615.93	35,788,721.87	30,089,374.80
Sub-total	1,196,146,498.76	904,795,522.09	1,258,266,197.95	955,756,232.37

3) Breakdown of revenue from contracts with customers by time of transfer of goods or services

Item	Amounts for the period		Amounts for the same period of last year
	Revenue	Cost	Revenue
Revenue recognised at a point of time	1,196,146,498.76		1,258,266,197.95
Sub-total	1,196,146,498.76		1,258,266,197.95

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

1. Operating revenue/operating cost (Continued)

(3) The revenue recognised during the period and included in the book value of contract liabilities at the beginning of the period was RMB5,843,471.48.

(4) Sales revenue and cost of trial operation presented in operating revenue and operating cost

Items	Amounts for the period	Amounts for the same period of last year
Sales revenue of trial operation	56,263,618.31	16,826,595.55
Sales cost of trial operation	61,480,335.49	19,530,010.74

2. Taxes and surcharges

Items	Amounts for the period	Amounts for the same period of last year
Urban maintenance and construction tax	2,528,165.27	2,436,198.82
Education surcharge	1,110,007.53	1,078,372.32
Local education surcharge	740,005.08	718,914.85
Stamp duty	1,234,559.87	435,638.58
Real estate tax	5,181,050.53	4,125,922.22
Land use tax	3,479,479.64	3,479,479.64
Others	118.12	
Total	14,273,386.04	12,274,526.43

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

3. Sales expenses

Items	Amounts for the period	Amounts for the same period of last year
Payroll	10,243,681.11	8,843,708.01
Travel expenses	1,893,423.34	931,906.19
Product test & certification costs	2,105,987.19	2,994,604.71
Entertainment charge	3,900,173.17	2,123,584.36
Sample service fees	286,386.90	1,633,165.44
Amortisation of low-value consumables	402,417.34	123,205.35
Others	960,446.72	2,042,855.03
Total	19,792,515.77	18,693,029.09

4. Management expenses

(1) Breakdown

Items	Amounts for the period	Amounts for the same period of last year
Payroll	28,837,337.35	29,070,899.26
Agency fee	4,742,992.40	4,326,326.35
Technology transfer fee	11,535,526.73	12,841,615.73
Depreciation and amortisation	26,885,493.01	16,846,102.27
Office expenses	13,043,488.75	7,711,731.20
Business entertainment expenses	1,935,399.43	1,998,104.76
Travel expenses	1,270,257.75	608,789.24
Amortisation of low-value consumables	2,566,135.52	1,778,185.51
Lease payment	583,008.41	336,177.49
Others	4,120,100.25	4,198,151.99
Total	95,519,739.60	79,716,083.80

(2) The management expenses for the year included auditors' remuneration of RMB1,509,400, of which the audit fee for 2023 amounted to RMB1,132,000, and the interim audit fee for 2023 were RMB377,400. The management expenses for 2022 included auditors' remuneration of RMB1,509,400.

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

5. Research and development expenses

Items	Amounts for the period	Amounts for the same period of last year
Material costs	19,581,385.33	26,458,653.49
Payroll	8,236,095.10	9,824,962.36
Electricity charges	4,257,621.22	5,147,183.92
Depreciation	742,059.07	1,047,938.69
Others	512,222.76	399,409.41
Total	33,329,383.48	42,878,147.87

6. Finance costs

Items	Amounts for the period	Amounts for the same period of last year
Interest expense	18,659,943.26	21,118,456.52
Less: Interest income	2,431,294.86	1,993,747.07
Exchange gains or losses	573,137.38	-57,911.81
Bank charges	708,713.02	596,643.91
Total	17,510,498.80	19,663,441.55

7. Other income

Items	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	232,600.00	232,600.00	232,600.00
Government grants related to income	2,839,527.66	1,337,838.24	2,839,527.66
Refund of handling charges of individual income tax	155,707.95	12,163.65	
Additional value-added tax credit	4,990,296.61		
Total	8,218,132.22	1,582,601.89	3,072,127.66

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

8. 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	34,361,625.08	32,661,927.08
Investment gains from financial assets held for trading during the holding period	366,240.00	2,003,804.65
Investment gains from disposal of financial assets held for trading	-68,135,188.24	6,412,555.14
Gains on derecognition of financial assets measured at amortised cost	-89,167.69	
Procedural fees for subscription of financial assets held for trading		-69,258.23
Total	-33,496,490.85	41,009,028.64

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	19,019,173.08	95,898,773.54
Total	19,019,173.08	95,898,773.54

10. Loss on credit impairment

Item	Amounts for the period	Amounts for the same period of last year
Loss on bad debts	-36,895,029.79	-45,865,582.10
Total	-36,895,029.79	-45,865,582.10

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

11. Impairment loss of assets

Items	Amounts for the period	Amounts for the same period of last year
Impairment loss of inventories	-9,088,163.76	-13,068,477.53
Impairment loss of contract assets	-4,111,312.26	-845,794.31
Impairment loss of goodwill	-5,665,026.17	-23,666,840.35
Total	-18,864,502.19	-37,581,112.19

12. Non-operating incomes

Items	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Export insurance subsidies	206,010.00		206,010.00
Confiscated income		25.00	
Amount not subject to payment	1,310,457.58		1,310,457.58
Others	5,848.84	27,742.93	5,848.84
Total	1,522,316.42	27,767.93	1,522,316.42

13. Non-operating expenses

Items	Amounts for the period	Amounts for the same period of last year	Amounts included in non-recurring profit and loss for the period
Expected compensation expenses for pending litigation		451,731.44	
Donation	10,260.00	150,000.00	10,260.00
Losses on write-off for damage of non-current assets	171,701.42	33,953.53	171,701.42
Overdue payments	72,465.95	245,793.83	72,465.95
Others	43,480.19	4.69	43,480.19
Total	297,907.56	881,483.49	297,907.56

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(II) Notes to the Consolidated Income Statement (Continued)

14. Income tax expenses

(1) Breakdown

Items	Amounts for the period	Amounts for the same period of last year (Restated)
Current income tax expenses	21,580,900.91	8,284,103.08
Deferred income tax expenses	-21,752,457.55	13,031,379.36
Total	-171,556.64	21,315,482.44

(2) Accounting profit and adjustment process of income tax expenses

Items	Amounts for the period	Amounts for the same period of last year (Restated)
Total profit	50,131,144.31	183,474,731.06
Income tax expenses calculated by the applicable tax rates of the parent	7,542,843.54	27,521,209.65
Effect of different tax rates applicable to subsidiaries	-182,735.31	1,248,079.80
Effect of adjusting income tax from prior periods	-3,025,534.14	
Effect of non-taxable income	-5,154,243.76	-5,234,749.76
Effect of non-deductible costs, expenses and losses	465,459.55	127,045.66
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 during the period	1,550,230.80	194.74
Effect of additional deduction on research and development expense, salaries of disabled employees and fixed assets	-2,217,331.25	-6,126,186.04
Others	849,753.93	3,782,633.95
Income tax expenses	-171,556.64	21,315,482.44

Notes to the Financial Statements (Continued)
2023**V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS** (Continued)**(III) Notes to items of consolidated statement of cash flows**

1. *Other cash received or paid relating to operating activities, investing activities and financing activities*

(1) Other cash received relating to operating activities

Items	Amounts for the period	Amounts for the same period of last year
Performance bond received	49,840,447.75	47,521,499.13
Bank acceptance notes deposits received	46,903,473.73	51,080,718.09
Government grants received	2,839,527.66	1,337,838.24
Interest income received	2,431,294.86	1,878,336.11
Others	6,031,932.59	40,291.58
Total	108,046,676.59	101,858,683.15

(2) Other cash payment relating to operating activities

Items	Amounts for the period	Amounts for the same period of last year
Payment for performance bond	28,244,286.14	55,874,134.25
Payment for bank acceptance notes deposits	30,550,266.59	41,581,958.91
Payment of expenses of the period	38,951,856.90	29,158,652.98
Others	451,369.19	18,233,587.95
Total	98,197,778.82	144,848,334.09

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**(III) Notes to items of consolidated statement of cash flows** (Continued)

1. Other cash received or paid relating to operating activities, investing activities and financing activities (Continued)

(3) Other cash received relating to financing activities

Items	Amounts for the period	Amounts for the same period of last year
Withdrawal of pledged time deposits		10,245,000.00
Interest income of pledged time deposits received		115,410.96
Total		10,360,410.96

(4) Other cash payment relating to financing activities

Items	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
Total	700,000.00	25,372,035.01

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of consolidated statement of cash flows (Continued)

2. Supplemental information on the statement of cash flows

Supplemental information	Amounts for the period	Amounts for the same period of last year (Restated)
(1) Net profit adjusted to cash flows from operating activities:		
Net profit	50,302,700.95	162,159,248.62
Add: Provision for impairment on assets	55,759,531.98	83,446,694.29
Depreciation of fixed assets, depletion of oil and gas assets and depreciation of bearer biological assets	51,002,263.34	37,981,005.25
Depreciation of right-of-use assets	599,448.94	599,448.94
Amortization of intangible assets	3,517,735.79	3,476,445.18
Amortization of long-term deferred expenses	61,166.15	
Losses on disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)		
Losses on write-off of fixed assets (“-” for gains)	171,701.42	33,953.53
Losses on changes in fair value (“-” for gains)	-19,019,173.08	-95,898,773.54
Finance costs (“-” for gains)	19,233,080.64	20,901,950.77
Investment losses (“-” for gains)	33,407,323.16	-41,009,028.64
Decrease in deferred income tax assets (“-” for increase)	-21,728,366.45	13,111,406.59
Increase in deferred income tax liabilities (“-” for decrease)	-24,091.10	-80,027.23
Decrease in inventories (“-” for increase)	-26,428,240.87	54,457,069.60
Decrease in operational receivables (“-” for increase)	84,568,468.25	-334,868,759.72
Increase in operational payables (“-” for decrease)	-37,798,390.70	-25,660,875.07
Others		
Net cash flows from operating activities	193,625,158.42	-121,350,241.43
(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	90,061,255.64	77,019,860.44
Less: Balance of cash at the beginning of the period	77,019,860.44	65,940,847.46
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	13,041,395.20	11,079,012.98

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of consolidated statement of cash flows (Continued)

3. Composition of cash and cash equivalents

(1) Breakdown

Items	Closing balance	Closing balance of last year
(1) Cash	90,061,255.64	77,019,860.44
Including: Cash on hand	43,261.25	57,132.09
Bank deposit readily available for payment	89,017,731.22	76,518,282.04
Other monetary fund readily available for payment	1,000,263.17	444,446.31
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	90,061,255.64	77,019,860.44
Including: Restricted cash and cash equivalents used by parent or group subsidiaries		

(2) Monetary funds that are not cash and cash equivalents

Items	Closing balance	Closing balance of last year	Reasons for not belonging to cash and cash equivalents
Reasons for equivalents			
Judicially frozen funds		2,941,731.44	Not readily available for payment
Other monetary fund	42,026,226.39	79,973,767.27	
Including: Performance bond	32,079,754.08	53,675,915.15	
Deposits for bank acceptance notes	8,978,405.78	25,331,612.92	
Migrant workers' advance deposits	968,066.53	966,239.20	
Sub-total	42,026,226.39	82,915,498.71	

Notes to the Financial Statements (Continued)
2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(III) Notes to items of consolidated statement of cash flows (Continued)

4. Changes in liabilities relating to financing activities

Items	Opening balance	Increase during the period		Decrease during the period		Closing balance
		Cash changes	Non-cash changes	Cash changes	Non-cash changes	
Short-term borrowings	182,639,573.25	206,945,042.00	5,918,596.50	190,318,596.50	7,039,573.25	198,145,042.00
Long-term borrowings (including long-term borrowings due within one year)	415,000,000.00	155,100,000.00	12,726,617.17	274,176,617.17		308,650,000.00
Lease liabilities (including lease liabilities due within one year)	627,472.25		14,729.59	642,201.84		
Sub-total	598,267,045.50	362,045,042.00	18,659,943.26	465,137,415.51	7,039,573.25	506,795,042.00

5. Significant activities that do not involve cash receipt and payment

Transferred endorsed commercial bill which does not involve cash receipt and payment

Items	Amounts for the period	Amounts for the same period of last year
Transferred endorsed commercial bill	308,710,019.44	280,879,023.59
Including: Payment for goods	290,743,913.42	258,521,785.29
Payment for purchase of long-term assets such as fixed assets	17,966,106.02	22,357,238.30

Notes to the Financial Statements (Continued)

2023

V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(IV) Others

1. Monetary items in foreign currencies

Items	Foreign currency balance at the end of the period	Exchange rate	Balance translated into RMB at the end of the period
Monetary capital			2,738,480.01
Including: US Dollar	261,003.84	7.0827	1,848,611.90
Euro	21,599.98	7.8592	169,758.56
HK Dollar	794,647.48	0.9062	720,109.55
Accounts receivable			243,219.92
Including: US Dollar	34,340.00	7.0827	243,219.92

2. Lease

The Company as a lessee

- (1) For details of the Company's accounting policies for short-term leases and low-value asset leases, see Note III(XXVII) 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	677,798.41	346,212.89
Total	677,798.41	346,212.89

- (2) Profit or loss and cash flows related to the lease for the period

Items	Amounts for the period	Amounts for the same period of last year
Interest expenses of lease liability	14,729.59	43,182.98
Total cash outflow related to the lease	1,377,798.41	1,046,212.89

Notes to the Financial Statements (Continued)

2023

VI. RESEARCH AND DEVELOPMENT EXPENSES

Items	Amounts for the period	Amounts for the same period of last year
Material costs	19,581,385.33	26,458,653.49
Payroll	8,236,095.10	9,824,962.36
Electricity charges	4,257,621.22	5,147,183.92
Depreciation	742,059.07	1,047,938.69
Others	512,222.76	399,409.41
Total	33,329,383.48	42,878,147.87
Including: Expensed research and development expenses Capitalised research and development expenses	33,329,383.48	42,878,147.87

VII. EQUITY IN OTHER ENTITIES**(I) Composition of the enterprise group**

- The Company has included eight subsidiaries in the consolidation scope for the consolidated financial statements, i.e 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), Yichen Corporate Management, 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), Yichen Hong Kong Trading and Guizhou Juneng Railway Transit Co., Ltd.* (貴州炬能軌道交通有限公司) (hereinafter referred to as Guizhou Juneng).

Notes to the Financial Statements (Continued)

2023

VII. EQUITY IN OTHER ENTITIES (Continued)

(I) Composition of the enterprise group (Continued)

2. General information of subsidiaries

Name of subsidiaries	Place of registration	Principal place of business	Type of legal person	Paid-in capital (RMB ten thousand)	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	15,000.00	Manufacturing	100.00		Establishment
Yichen Corporate Management	Shijiazhuang	Shijiazhuang	Limited liability company	295.00	Manufacturing	100.00		Establishment
Xingtai Juneng	Xingtai	Xingtai	Limited liability company	5,100.00	Manufacturing	87.50		Business combination not under common control
Zhongke Yichen New Material	Shijiazhuang	Shijiazhuang	Limited liability company		Technological promotion and application services	100.00		Establishment
Hebei Yichen Jinzhao Railway Technology Co., Ltd. (河北翼辰金兆軌道科技有限公司)	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
Guizhou Juneng	Guizhou	Guizhou	Limited liability company	73.00	Manufacturing		87.50	Establishment

(II) Interest in associates

1. Associates

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	49.00		Equity method

Notes to the Financial Statements (Continued)

2023

VII. EQUITY IN OTHER ENTITIES (Continued)

(II) Interest in associates (Continued)

2. Key financial information of associates

Items	Closing balance/ balance for the period Tieke Yichen (RMB ten thousand)	Closing balance of last year/ balance for the same period of last year Tieke Yichen (RMB ten thousand)
Current assets	47,878.28	42,575.01
Non-current assets	23,871.69	21,850.25
Total assets	71,749.97	64,425.26
Current liabilities	13,982.96	14,907.04
Non-current liabilities	110.74	3.39
Total liabilities	14,093.70	14,910.43
Equity attributable to owners of the parent	57,656.27	49,514.83
Net assets based on shareholding percentage	28,251.57	24,262.27
Adjustment for		
Unrealised profit from intra-group transactions	-70.88	-72.57
Book value of equity investments in associates	28,180.69	24,189.69
Operating revenue	43,766.02	39,908.18
Net profit	9,527.82	5,354.08
Total comprehensive income	9,527.82	5,354.08
Dividends received from associates during the period	710.50	390.78

Notes to the Financial Statements (Continued)

2023

VIII. GOVERNMENT GRANTS**(I) Government grants increased during the period**

Item	Grants increased during the period
Government grants related to income	2,839,527.66
Including: Included in deferred income	
Included in other income	2,839,527.66
Total	2,839,527.66

(II) Liabilities that involve government grants

Item presented in the financial statements	Opening balance	Grants increased during the period	Amounts included in other income during the period	Amounts included in non-operating incomes during the period
Deferred income	4,711,066.67		232,600.00	
Sub-total	4,711,066.67		232,600.00	

Item	Amounts of cost offset against during the period	Amounts of assets offset against during the period	Other changes	Closing balance	Relating to assets/income
Deferred income				4,478,466.67	Relating to assets
Sub-total				4,478,466.67	

(III) Government grants credited to the current profit or loss for the period

Item	Amounts for the period	Amount for the same period of last year
Government grants credited to other income	3,072,127.66	1,570,438.24
Total	3,072,127.66	1,570,438.24

Notes to the Financial Statements (*Continued*)

2023

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

With the objective of achieving a balance between risks and revenue through risk management, the Company minimises the negative impact of risks to its operating results in order to maximise 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 scope.

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

(I) Credit Risk

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

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 represent 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 represent 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*)

2023

IX. 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 are 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 Notes V(I) 3, V(I) 4, V(I) 7, V(I) 9 and V(I) 20 to these financial statements.

Notes to the Financial Statements (*Continued*)
2023

IX. 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 and contract assets

The Company continuously conducts credit assessment on customers who trade on credit terms. Based on the credit 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 2023, 34.64% (31 December 2022: 40.79%) of the Company's accounts receivable and contract assets 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 are 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 notes settlement and bank borrowings, as well as optimising financing structure through the combination of long and short-term financing. The Company has obtained banking facilities, which are mainly denominated in RMB, from several commercial banks to fund the working capital requirements and capital expenditure.

Notes to the Financial Statements (Continued)

2023

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)**(II) Liquidity risk** (Continued)

Classification of financial liabilities based on the remaining maturity

Items	Book value	Undiscounted contractual amount	Closing balance		
			Within 1 year	1 to 3 years	Over 3 years
Bank borrowings	506,795,042.00	523,561,289.40	368,823,455.43	154,737,833.97	
Bills payable	32,594,685.72	32,594,685.72	32,594,685.72		
Accounts payable	350,349,406.08	350,349,406.08	350,349,406.08		
Other payables	22,516,750.29	22,516,750.29	22,516,750.29		
Lease liabilities and lease liabilities due within one year					
Sub-total	912,255,884.09	929,022,131.49	774,284,297.52	154,737,833.97	

Items	Book value	Undiscounted contractual amount	Closing balance of last year		
			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		
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	

Notes to the Financial Statements (*Continued*)
2023

IX. 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 2023, the Company's bank borrowings with interest accrued at floating interest rate totalled RMB269,200,000.00 (31 December 2022: RMB190,000,000.00). Assuming that interest rates had been 50 basis points higher/lower and all other variables were held constant, there will be no significant impact on the Company's total profit and shareholders' interests.

2. *Foreign exchange risk*

Foreign exchange 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 denominated in RMB. Therefore, the Company's exposure to market risk in respect of changes in foreign exchange 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 V(IV) 1 to these financial statements.

Notes to the Financial Statements (Continued)

2023

X. 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	101,346,207.48			101,346,207.48
(1) Financial assets at fair value through profit or loss for the period	101,346,207.48			101,346,207.48
Equity instruments investment – shares of Hong Kong listed companies	101,346,207.48			101,346,207.48
2. Financing of receivables			3,249,942.10	3,249,942.10
3. Other equity instruments investment			8,197,392.29	8,197,392.29
Total assets measured at fair value on a recurring basis	101,346,207.48		11,447,334.39	112,793,541.87

(II) The determination basis for market price of recurring and non-recurring fair value measurements categorised 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 is 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 categorised within level 3

1. The Company's financing of receivables represents the bank acceptance notes, whose fair value was measured at cost as 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 the opening book value since the investees had no new round of financing with normal operation and within the original investment expectations.

Notes to the Financial Statements (*Continued*)

2023

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS**(I) Related parties**1. *Information on the parent 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 VII to these financial statements.*3. *Information on the associates of the Company*

For details of the Company's associates, see Note VII 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
Zhou Qiuju	Spouse of Zhang Haijun
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Enterprise controlled by actual controllers and their close family members
Hebei Chenteng Power Sales Co., Ltd.	Enterprise controlled by actual controllers and their close family members
Yin Yanping	Spouse of Zhang Lihuan

Notes to the Financial Statements (Continued)
2023

XI. 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	Amount for the period	Amount for the same period of last year
Tieke Yichen	Purchase of goods	120,466,682.71	110,528,728.52
Hebei Chenteng Power Sales Co., Ltd.	Electricity supply service	3,807,379.93	
Total		124,274,062.64	110,528,728.52

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

Related parties	Information on related party transactions	Amount for the period	Amount for the same period of last year
Tieke Yichen	Sales of water, electricity and gas	724,949.01	543,198.92
Tieke Yichen	Provision of labour services	822,271.07	363,973.84
Tieke Yichen	Sales of goods	3,198,722.13	3,646,040.09
Total		4,745,942.21	4,553,212.85

Notes to the Financial Statements (Continued)
2023**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (Continued)**(II) Related party transactions** (Continued)

2. Related party leases

The Company as a lessee

Name of lessors	Type of leased assets	Amount for the period			
		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	Recognised right-of-use assets lease Rental paid (excluding variable lease payments not included in the measurement of lease liabilities)	Increased principal amount of lease liabilities	Recognised interest expenses
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Building		642,201.84		14,729.59

Name of lessor	Type of leased assets	Amount for the same period of last year			
		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	Recognised right-of-use assets lease Rental paid (excluding variable lease payments not included in the measurement of lease liabilities)	Increased principal amount of lease liabilities	Recognised interest expenses
Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.	Building		642,201.84		43,182.98

Notes to the Financial Statements (Continued)

2023

XI. 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

Guarantors	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 Haijun	RMB40,000,000	14 July 2023	12 March 2024	No
Zhang Haijun, Zhou Qiuju (Note)	RMB295,450,000	27 September 2022	31 July 2025	No

(Note) Zhang Haijun and Zhou Qiuju provided joint and several guarantees of up to RMB550 million for the signing of RMB capital loan contracts, foreign exchange capital loan contracts, bank acceptance agreements, letter of credit issuance contracts, letter of guarantee issuance agreements and other legal documents between the Company and China Construction Bank Corporation Gaocheng Branch

4. *Compensation to key management personnel*

Item	Amount for the period	Amount for the same period of last year
Compensation to key management personnel	3,483,340.15	3,040,596.81

Notes to the Financial Statements (Continued)
2023**XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS** (Continued)**(II) Related party transactions** (Continued)

5. Remunerations of directors and supervisors

Items	Amounts for the period				
	Salaries, allowances and subsidies	Pension insurance	Housing provident funds	Other social insurance	Total
Executive director:					
Zhang Haijun	521,106.64				521,106.64
Wu Jinyu	250,860.04	35,775.84	12,396.00	23,006.76	322,038.64
Zhang Chao	240,859.96	35,775.84	11,898.00	23,006.76	311,540.56
Zhang Lihuan	315,155.04	7,155.12	2,778.00	7,174.08	332,262.24
Ma Xuehui	124,071.56	7,155.12	2,778.00	7,174.08	141,178.76
Independent non-executive director:					
Jip Ki Chi	158,263.88				158,263.88
Zhang Liguo	39,999.96				39,999.96
Wang Qi					
Wang Fujun	39,999.96				39,999.96
Supervisor:					
Hu Hebin	262,337.91	35,775.84	12,972.00	23,006.76	334,092.51
Liu Jianbin	119,866.68	15,999.96	4,638.00	9,348.48	149,853.12
Guan En	118,266.68	15,999.96	4,704.00	9,595.44	148,566.08
Total	2,190,788.31	153,637.68	52,164.00	102,312.36	2,498,902.35

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Notes to the Financial Statements (Continued)

2023

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**(II) Related party transactions** (Continued)

5. Remunerations of directors and supervisors (Continued)

Items	Salaries, allowances and subsidies	Amounts for the same period of last year			Total
		Pension insurance	Housing provident 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
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

(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

Notes to the Financial Statements (*Continued*)
2023

XI. 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 2 (2022: 3) Directors whose details of emoluments are stated in Note XI(II) 5 to these financial statements. The details of the remaining 3 (2022: 2) non-director employees' total remunerations are as follows:

Items	Amounts for the period	Amounts for the same period of last year
Salaries, bonuses, allowances and subsidies	1,094,565.04	534,341.73
Housing provident funds	2,778.00	12,714.00
Pension insurance	7,155.12	40,011.84
Other social insurance	7,174.08	26,732.34
Total	1,111,672.24	613,799.91

The emoluments of 3 (2022: 2) 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	3	2

There were no emoluments paid by the Group to any of the Directors, Supervisors or the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

7. The above related parties' transactions include connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules of the Hong Kong Stock Exchange.

Notes to the Financial Statements (Continued)

2023

XI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)**(III) Amount due from/to related parties**

1. Amount due from related parties

Name of items	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	440,000.00	44,000.00	3,000,000.00	
Sub-total		440,000.00	44,000.00	3,000,000.00	
Accounts receivable	Tieke Yichen	15,724,958.54	325,861.24	6,168,728.64	123,374.57
Sub-total		15,724,958.54	325,861.24	6,168,728.64	123,374.57
Prepayments	Hebei Chenteng Power Sales Co., Ltd.	62,431.32			
Sub-total		62,431.32			
Other receivables	Yin Yanping	36,800.00	736.00	36,800.00	736.00
	Zhang Ning			3,116.95	62.34
Sub-total		36,800.00	736.00	39,916.95	798.34

2. Amount due to related parties

Name of items	Related party	Closing balance	Closing balance of last year
Accounts payable	Tieke Yichen	93,082,737.35	109,406,573.16
Sub-total		93,082,737.35	109,406,573.16
Bills payable	Tieke Yichen	15,000,000.00	13,687,862.20
Sub-total		15,000,000.00	13,687,862.20
Non-current liabilities due within one year	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.		627,472.25
Sub-total			627,472.25

Notes to the Financial Statements (*Continued*)
2023

XII. 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 the balance sheet date, the Company has no significant contingencies that need to be disclosed.

XIII. EVENTS AFTER THE BALANCE SHEET DATE

Profit distribution after the balance sheet date

Profits or dividends proposed to distribute	8,999,948
Profits or dividends declared to distribute after review and approval	On 27 March 2024, the Board of Directors of the Company convened a meeting to approve the profit distribution scheme for the year 2023, pursuant to which the Company intended to distribute RMB0.010024 per share in cash dividend to all shareholders, amounting to total cash dividend of RMB8,999,948, based on the total share capital of 897,840,000 shares as at 31 December 2023. The above preliminary scheme for profit distribution is subject to review and approval at the general meeting of the Company.

XIV. OTHER SIGNIFICANT EVENTS

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 when implementing management and assessing operating results. Accordingly, the Company is not required to disclose segment information. Details of the Company's revenue breakdown are set out in Note V(II) 1 to these financial statements.

Notes to the Financial Statements (Continued)
2023

XV. 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

Categories	Book balance		Closing balance		Book value
	Amount	Proportion (%)	Provision for bad debts		
			Amount	Percentage of provision (%)	
Provision for bad debts made individually	11,473,696.11	0.89	11,473,696.11	100.00	
Provision for bad debts made as per portfolio	1,271,955,264.43	99.11	209,547,009.32	16.47	1,062,408,255.11
Total	1,283,428,960.54	100.00	221,020,705.43	17.22	1,062,408,255.11

Categories	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	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

Notes to the Financial Statements (Continued)
2023**XV. 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) Trade receivables with provision for bad debts made as per portfolio

Items	Closing balance		Percentage of provision (%)
	Book balance	Provision for bad debts	
Grouped by payment	1,116,796,637.57	177,120,294.60	15.86
Grouped by retention monies	118,959,632.84	32,426,714.72	27.26
Group of related parties within the scope of combination	36,198,994.02		
Sub-total	1,271,955,264.43	209,547,009.32	16.47

3) Account receivables – grouped by payment for which provision for bad debts has been made using the comparison table of expected credit loss rate

Ageing	Closing balance		Percentage of provision (%)
	Book balance	Provision for bad debts	
Within 1 year	579,364,264.65	11,587,285.30	2.00
1 to 2 years	303,364,100.43	30,336,410.04	10.00
2 to 3 years	93,574,130.67	28,072,239.20	30.00
3 to 4 years	47,494,095.12	23,747,047.56	50.00
4 to 5 years	48,113,671.01	38,490,936.81	80.00
Over 5 years	44,886,375.69	44,886,375.69	100.00
Total	1,116,796,637.57	177,120,294.60	15.86

Notes to the Financial Statements (Continued)

2023

XV. 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)

- 4) Trade receivables – grouped by retention monies 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	40,417,664.26	6,062,649.64	15.00
1 to 2 years	36,782,679.79	5,517,401.97	15.00
2 to 3 years	16,912,576.44	5,073,772.93	30.00
3 to 4 years	15,083,912.85	7,541,956.43	50.00
4 to 5 years	7,659,328.75	6,127,463.00	80.00
Over 5 years	2,103,470.75	2,103,470.75	100.00
Total	118,959,632.84	32,426,714.72	27.26

(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	655,526,429.63	17,649,934.94	2.69	850,472,920.52	24,286,678.25	2.86
1 to 2 years	340,601,273.52	35,853,812.01	10.53	351,109,807.32	36,062,554.59	10.27
2 to 3 years	110,486,707.11	33,146,012.13	30.00	70,868,869.03	21,260,660.71	30.00
3 to 4 years	62,578,007.97	31,289,003.99	50.00	67,635,392.90	33,817,696.45	50.00
4 to 5 years	55,772,999.76	44,618,399.81	80.00	26,304,952.87	21,322,691.06	81.06
Over 5 years	58,463,542.55	58,463,542.55	100.00	52,320,172.36	52,320,172.36	100.00
Total	1,283,428,960.54	221,020,705.43	17.22	1,418,712,115.00	189,070,453.42	13.33

The ageing calculation of accounts receivable – grouped by retention monies starts at the expiry of retention monies, while the ageing calculation of accounts receivable – grouped by payment starts on the day when revenue is recognised and accounts receivable – payment occurs. The amount that occurs first has priority in settlement upon transfer of funds. The Company generally grants to customers 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)
2023

XV. 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

Items	Opening balance	Provision	Changes in amount during the period			Closing balance
			Recovery or reversal	Write-off	Others (Note)	
Provision for bad debts						
made individually	12,496,078.44	59,936.85	-469,909.97	-612,409.21		11,473,696.11
Provision for bad debts						
made as per portfolio	176,574,374.98	31,072,260.09		-372,048.10	2,272,422.35	209,547,009.32
Total	189,070,453.42	31,132,196.94	-469,909.97	-984,457.31	2,272,422.35	221,020,705.43

(Note) Other changes 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) Actual accounts receivable written off during the period

Item	Amount written off
Actual accounts receivable written off	984,457.31

Notes to the Financial Statements (Continued)
2023

XV. 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)

(5) Top 5 entities by the amount of accounts receivable and contract assets

Name of entities	Book balance at the end of the period			Percentage of total closing balance of accounts receivable and contract assets (including contract assets presented in other non-current assets) (%)	Bad debt provision for accounts receivable and impairment provision for contract assets
	Accounts receivable	Contract assets (including contract assets presented in other non-current assets)	Sub-total		
Customer 1	169,108,608.01	21,870,692.60	190,979,300.61	13.53	41,959,798.40
Customer 2	91,330,966.66	18,815,840.35	110,146,807.01	7.81	10,020,766.37
Customer 3	68,542,730.90	13,449,194.25	81,991,925.15	5.81	7,767,817.23
Customer 4	77,857,650.00		77,857,650.00	5.52	14,226,053.92
Customer 5	71,096,180.31	3,741,904.24	74,838,084.55	5.30	2,190,429.04
Sub-total	477,936,135.88	57,877,631.44	535,813,767.32	37.97	76,164,864.96

Notes to the Financial Statements (*Continued*)
2023

XV. 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) Classification by nature of amounts

Nature	Book balance at the end of the period	Book balance at the end of last year
Security deposits	8,869,341.61	9,386,954.50
Imprest	423,779.05	543,164.65
Related parties transactions within the scope of combination	40,000,000.00	
Others	74,474.21	3,005,300.00
Total	49,367,594.87	12,935,419.15

(2) Ageing Status

Ageing	Book balance at the end of the period	Book balance at the end of last year
Within 1 year	42,803,360.18	6,440,184.45
1 to 2 years	1,163,862.73	715,752.00
2 to 3 years	426,763.26	1,845,115.31
3 to 4 years	1,842,815.31	1,357,194.39
4 to 5 years	973,620.39	740,000.00
Over 5 years	2,157,173.00	1,837,173.00
Total	49,367,594.87	12,935,419.15

Notes to the Financial Statements (Continued)

2023

XV. 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) Provision for bad debts

1) Breakdown by category

Categories	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	1.54	761,173.00	100.00	
Provision for bad debts made as per portfolio	48,606,421.87	98.46	1,558,052.13	3.21	47,048,369.74
Total	49,367,594.87	100.00	2,319,225.13	4.70	47,048,369.74

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	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

Notes to the Financial Statements (Continued)

2023

XV. 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) Provision for bad debts (Continued)

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

Portfolios	Closing balance		Percentage of provision (%)
	Book balance	Provision for bad debts	
Security deposits receivable portfolio	8,108,168.61	1,544,701.22	19.05
Imprest receivable portfolio	423,779.05	11,021.42	2.60
Related parties portfolio within the scope of combination	40,000,000.00		
Others	74,474.21	2,329.49	3.13
Sub-total	48,606,421.87	1,558,052.13	3.21

(4) Changes in provision for bad debts

Items	Stage 1	Stage 2	Stage 3	Total
	Expected credit loss in following 12 months	Lifetime expected credit loss (without credit impairment)	Lifetime expected credit loss (with credit impairment)	
Opening balance	157,499.46	393,259.16	2,095,770.20	2,646,528.82
Opening balance for the period	-	-	-	
- Transfer to stage 2	-373.03	373.03		
- Transfer to stage 3		-14,561.33	14,561.33	
- Reverse to stage 2				
- Reverse to stage 1				
Provision for the period	-53,124.69	-68,895.76	-205,283.24	-327,303.69
Recovery or reversal for the period				
Write-off for the period				
Other changes				
Closing balance	104,001.74	310,175.10	1,905,048.29	2,319,225.13
Percentage of provision for bad debts at the end of the period (%)	0.23	14.96	91.00	4.70

Notes to the Financial Statements (Continued)

2023

XV. 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 entities	Nature	Book balance at the end of the period	Ageing	Percentage of the balance of other receivables (%)	Provision for bad debts at the end of the period
Yichen Welding	Current accounts	20,000,000.00	Within 1 year	40.51	
Xingtai Juneng	Current accounts	20,000,000.00	Within 1 year	40.51	
Customer 6	Security deposits	200,000.00	Within 1 year	0.41	4,000.00
		986,915.31	3 to 4 years	2.00	89,537.30
Sub-total		1,186,915.31		2.41	93,537.30
Customer 7	Security deposits	40,000.00	1 to 2 years	0.08	800.00
		640,000.00	3 to 4 years	1.30	12,800.00
		330,000.00	4 to 5 years	0.67	6,600.00
Sub-total		1,010,000.00		2.05	20,200.00
Customer 8	Security deposits	761,173.00	Over 5 years	1.54	761,173.00
Total		42,958,088.31		87.02	874,910.30

Notes to the Financial Statements (Continued)
2023**XV. 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

Items	Closing balance			Closing balance of last year		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	466,231,767.36	40,872,827.28	425,358,940.08	319,231,767.36	35,207,801.11	284,023,966.25
Investments in associates ventures	262,594,186.16		262,594,186.16	235,025,837.98		235,025,837.98
Total	728,825,953.52	40,872,827.28	687,953,126.24	554,257,605.34	35,207,801.11	519,049,804.23

(2) Investment in subsidiaries

Investees	Opening balance		Increase or decrease during the period				Closing balance	
	Book value	Provision for impairment	Additional investments	Decrease in investments	Provision for impairment	Others	Book value	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		147,000,000.00				150,000,000.00	
Xingtai Juneng	123,167,198.89	35,207,801.11			5,665,026.17		117,502,172.72	40,872,827.28
Yichen Hong Kong Trading	7,213.40						7,213.40	
Sub-total	284,023,966.25	35,207,801.11	147,000,000.00		5,665,026.17		425,358,940.08	40,872,827.28

Notes to the Financial Statements (Continued)

2023

XV. 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)

(2) Investments in associates

Investees	Opening balance		Increase or decrease during the period			
	Book value	Provision for impairment	Additional investments	Decrease in investments	Investment recognised using equity method	Adjustment to other comprehensive income
Hebei Tieke Yichen New Material Technology Co., Ltd.	235,025,837.98				34,361,625.08	
Total	235,025,837.98				34,361,625.08	

Investees	Increase or decrease during the period				Closing balance	
	Other changes in equity	Cash dividends or profit distribution declared	Provision for impairment	Others	Book value	Provision for impairment
Hebei Tieke Yichen New Material Technology Co., Ltd.	311,723.10	-7,105,000.00			262,594,186.16	
Total	311,723.10	-7,105,000.00			262,594,186.16	

Notes to the Financial Statements (Continued)
2023**XV. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** (Continued)**(II) Notes to the items of income statement of the parent company**1. *Operating revenue/Operating cost*(1) Breakdown

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Revenue from principal business	828,416,132.18	571,354,678.35	1,183,596,123.39	920,293,443.12
Other operating revenue	69,902,015.35	67,303,552.42	8,030,679.22	4,664,400.87
Total	898,318,147.53	638,658,230.77	1,191,626,802.61	924,957,843.99
Including: Revenue from contracts with customers	895,627,627.64	635,997,116.77	1,191,626,802.61	924,957,843.99

(2) Breakdown of revenue from contracts with customers by main category1) Breakdown of revenue by types of goods or services

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Rail fastening system	692,996,450.45	442,642,767.94	871,575,129.38	622,301,890.06
Welding material	134,880,189.70	128,260,261.64	311,209,866.64	297,115,764.66
Railway sleepers	539,492.03	451,648.77	811,127.37	875,788.40
Others	69,902,015.35	67,303,552.42	8,030,679.22	4,664,400.87
Sub-total	898,318,147.53	638,658,230.77	1,191,626,802.61	924,957,843.99

Notes to the Financial Statements (Continued)

2023

XV. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)**(II) Notes to the items of income statement 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

Items	Amounts for the period		Amounts for the same period of last year	
	Revenue	Cost	Revenue	Cost
Domestic	877,190,033.48	620,256,594.48	1,155,838,080.74	894,528,950.63
Overseas	21,128,114.05	18,401,636.29	35,788,721.87	30,428,893.36
Sub-total	898,318,147.53	638,658,230.77	1,191,626,802.61	924,957,843.99

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 in time	895,627,627.64	1,191,626,802.61
Sub-total	895,627,627.64	1,191,626,802.61

(3) The revenue recognised during the period and included in the book value of contract liabilities at the beginning of the period was RMB5,552,401.10.

(4) Sales revenue and cost of trial operation presented in operating revenue and operating cost

Items	Amounts for the period	Amounts for the same period of last year
Sales revenue of trial operation	12,113,638.67	16,826,595.55
Sales cost of trial operation	13,738,790.39	19,530,010.74

Notes to the Financial Statements (*Continued*)
2023**XV. NOTES TO MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY** (*Continued*)**(II) Notes to the items of income statement of the parent company** (*Continued*)2. *Research and development expenses*

Items	Amounts for the period	Amounts for the same period of last year
Material costs	17,771,066.13	24,799,942.06
Payroll	7,430,336.32	9,302,602.27
Electricity charges	4,130,325.29	5,096,733.34
Depreciation	553,769.29	920,601.85
Others	3,185.84	
Total	29,888,682.87	40,119,879.52

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	34,361,625.08	32,661,927.08
Investment gains from financial assets held for trading during the holding period	366,240.00	2,003,804.65
Investment gains from disposal of financial assets held for trading	-68,135,188.24	6,412,555.14
Procedural fees for subscription of financial assets held for trading		-69,258.23
Total	-33,407,323.16	41,009,028.64

Notes to the Financial Statements (*Continued*)

2023

XVI. OTHER SUPPLEMENTAL INFORMATION**(I) Non-recurring gain or loss**1. *Breakdown*

Items	Amount	Description
Gain or loss on disposal of non-current assets, inclusive of write-off of impairment provision for assets	-171,701.42	
Government grants (except for government grants which are closely related to the Company's ordinary business, conform with the national policies, are entitled to based on the established standards and have continuous impact on the Company's profit or loss) recognised in profit or loss	3,072,127.66	
Gains and losses from changes in fair value arising from financial assets and financial liabilities held by non-financial enterprises as well as gains and losses arising from disposal of financial assets and financial liabilities, other than effective hedging activities associated with normal business operations of the Company	-48,749,775.16	
Fees for usage of funds received from non-financial enterprises recognised in profit or loss		
Gains or losses from entrusted investment or assets management		
Gains or losses from external entrusted loans		
Loss of assets due to force majeure factors such as natural disasters		
Reversal of impairment provisions for receivables subject to individual impairment test	469,909.97	
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		
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 the exchange of non-monetary assets		
Gains or losses from debt restructuring		
One-off expenses incurred by the enterprise as a result of the discontinuation of relevant business activities, such as staff resettlement expenses, etc.		
One-off effect on current gains and losses due to the adjustments in tax and accounting laws and regulations		
One-off share-based payment expenses recognised for cancellation or modification of the equity incentive plan		
For cash-settled share-based payment, gains and losses arising from changes in the fair value of payroll payable after the exercise date		
Gains or losses from changes in fair value of investment properties using fair value method for subsequent measurement		
Gains arising from transactions at unfair trading prices		
Gains or losses from contingency items unrelated to the normal business operations of the Company		
Trust income received from entrusted operation		
Other non-operating income and expenses apart from those stated above	1,396,110.28	
Other gains and losses items conforming with the definition of non-recurring gains or losses		
Sub-total	-43,983,328.67	
Less: Effect on enterprise income tax ("—"for income tax decrease)	-6,667,262.68	
Effect on interest of minority shareholders (after tax)	24,596.26	
Items of non-recurring gains or losses attributable to owners of the parent	-37,340,662.25	

Notes to the Financial Statements (*Continued*)
2023

XVI. OTHER SUPPLEMENTAL INFORMATION (*Continued*)

(I) Non-recurring gain or loss (*Continued*)

2. *Description of major non-recurring profit and loss items*

The Company incurred gains and losses from changes in fair value arising from the holding of financial assets and gains and losses arising from disposal of financial assets during the period, which amounted to RMB-48,749,775.16, including gains and losses from changes in fair value arising from shares of Hong Kong listed companies held by the Company of RMB19,019,172.57 during the period, investment gains of dividends recognised from shares of RMB366,240.00 during the period and investment gains from disposal of financial assets held for trading of RMB-68,135,187.73.

(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	2.01	0.06	0.06
Net profit after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	3.53	0.10	0.10

Notes to the Financial Statements (Continued)

2023

XVI. 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

Items	No.	Amounts for the period
Net profit attributable to ordinary shareholders of the Company	A	49,444,225.34
Non-recurring profit or loss	B	-37,340,662.25
Net profits after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	C=A-B	86,784,887.59
Net assets at the beginning of the period attributable to ordinary shareholders of the Company	D	2,460,985,233.77
Additions to net assets as a result of an issue of new shares, conversion of loans, etc. attributable to ordinary shareholders of the Company	E	
Cumulative months from the month after increase in net 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	44,981,784.00
Cumulative months from the month after decrease in net assets to end of reporting period	H	7
Increase of net assets in capital reserve	I	311,723.10
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	$L = D + A/2 + E \times F / K - G \times H / K \pm I \times J / K$	2,459,623,833.99
Weighted average return on net assets ratio	$M = A/L$	2.01%
Weighted average return on net assets ratio, after deduction of non-recurring profit or loss	$N = C/L$	3.53%

Notes to the Financial Statements (Continued)

2023

XVI. 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

Items	No.	Amounts for the period
Net profits attributable to the ordinary shareholders of the Company	A	49,444,225.34
Non-recurring profit or loss	B	-37,340,662.25
Net profits after deducting non-recurring profit or loss attributable to the ordinary shareholders of the Company	C=A-B	86,784,887.59
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 conversion of loans	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	12.00
Weighted average number of outstanding ordinary shares	L=D+E+F×G/K-H×I/K-J	897,840,000.00
Basic earnings per share	M=A/L	0.06
Basic earnings per share after deducting non-recurring profit or loss	N=C/L	0.10

(2) Calculations of diluted earnings per share are the same as the calculations of basic earnings per share.

(III) Discrepancies in Preparation of Financial Statements Between Domestic and Overseas Accounting Standards

These financial statements of the Company were prepared in accordance with Accounting Standards for Business Enterprises. In 2019, according to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" issued by the Hong Kong Stock Exchange in December 2010, the Company decided to prepare the financial statements in accordance with Accounting Standards for Business Enterprises for information disclosure on the Hong Kong Stock Exchange.

Hebei Yichen Industrial Group Corporation Limited

19 April 2024

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 C1 (formerly known as 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 C3 (formerly known as 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.