

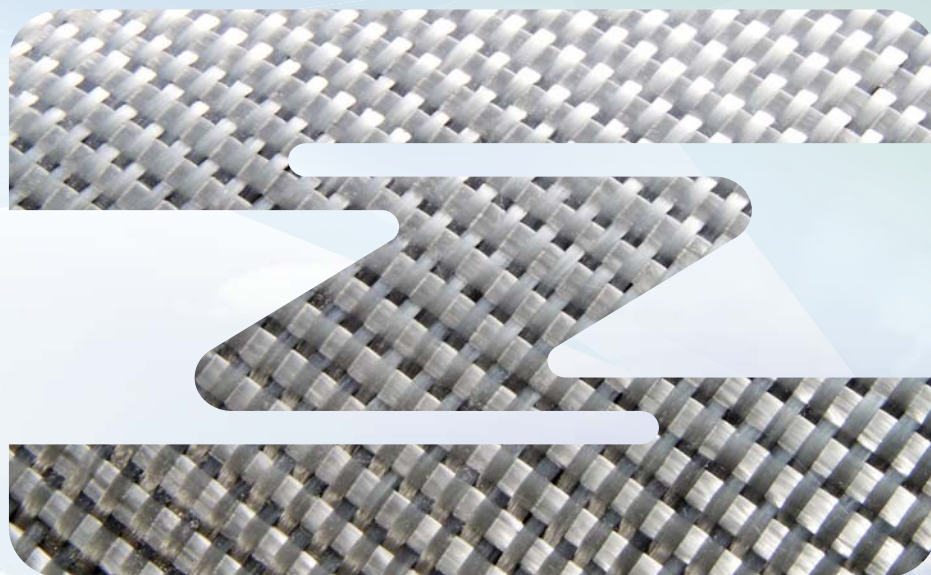


中國恒石基業有限公司

China Hengshi Foundation Company Limited

(Incorporated under the laws of the Cayman Islands with limited liability)

Stock code : 1197



GLOBAL OFFERING



Sole Sponsor and Sole Global Coordinator

Morgan Stanley

Joint Bookrunners and Joint Lead Managers

Morgan Stanley



IMPORTANT

IMPORTANT: If you are in doubt about any of the contents of this prospectus, you should seek independent professional advice.



CHINA HENGSHI FOUNDATION COMPANY LIMITED

中國恒石基業有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares in the Global Offering	: 250,000,000 Shares (subject to the Over-allotment Option)
Number of International Offering Shares	: 225,000,000 Shares (subject to adjustment and the Over-allotment Option)
Number of Hong Kong Offer Shares	: 25,000,000 Shares (subject to adjustment)
Maximum offer price	: HK\$2.60 per Offer Share, plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027% (payable in full on application in Hong Kong dollars, subject to refund on final pricing)
Nominal value	: US\$0.001 per Share
Stock code	: 1197

Sole Sponsor and Sole Global Coordinator

Morgan Stanley

Joint Bookrunners and Joint Lead Managers

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in Appendix VI — “Documents Delivered to the Registrar of Companies and Available for Inspection,” has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date which is expected to be on or around 11 December 2015 and, in any event, not later than 18 December 2015. The Offer Price will not be more than HK\$2.60 per Offer Share and is currently expected not to be less than HK\$1.80 per Offer Share. If, for any reason, the Offer Price is not agreed by 18 December 2015 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters) may, with our consent, reduce the indicative Offer Price range and/or the number of Hong Kong Offer Shares below that is stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In the case of such reduction, notices of the reduction in the indicative Offer Price range and/or the number of Hong Kong Offer Shares will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Hong Kong Stock Exchange at www.hkexnews.hk and our Company at www.chinahengshi.com.cn as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. Further details are set out in the sections headed “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange of Hong Kong Limited. Such grounds are set out in the section headed “Underwriting — Hong Kong Public Offer — Grounds for Termination” in this prospectus.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed “Risk Factors” in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under HK eIPO White Form service through the designated website www.hkeipo.hk ⁽²⁾	11:30 a.m. on Friday, 11 December 2015
Application lists open ⁽³⁾	11:45 a.m. on Friday, 11 December 2015
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Friday, 11 December 2015
Latest time to complete payment of HK eIPO White Form applications by effecting Internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 11 December 2015
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Friday, 11 December 2015
Application lists close ⁽²⁾	12:00 noon on Friday, 11 December 2015
Expected Price Determination Date ⁽⁵⁾	Friday, 11 December 2015
Announcement of: <ul style="list-style-type: none">• the Offer Price;• the level of applications in the Hong Kong Public Offer;• the level of indications of interest in the International Offering; and• the basis of allocation of the Hong Kong Offer Shares to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before and on our Company at www.chinahengshi.com.cn and the website of the Hong Kong Stock Exchange at www.hkexnews.hk on or before	Friday, 18 December 2015
Results of allocations for the Hong Kong Public Offer (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels, including the website of the Stock Exchange at www.hkexnews.hk ⁽⁷⁾ and our website at www.chinahengshi.com.cn ⁽⁸⁾ (see "How to Apply for Hong Kong Offer Shares") from	Friday, 18 December 2015
Results of allocations in the Hong Kong Public Offer will be available at www.tricor.com.hk/ipo/result with a "Search by ID" function	Friday, 18 December 2015
Dispatch of Share certificates or deposit of the Share certificates into CCASS on or before ⁽⁶⁾	Friday, 18 December 2015
Dispatch of HK eIPO White Form e-Auto Refund payment instructions/refund cheques on or before ⁽⁹⁾	Friday, 18 December 2015
Dealings in Shares on the Main Board to commence at 9:00 a.m. on	Monday, 21 December 2015

Notes:

- (1) All times and dates refer to Hong Kong local time and dates. Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at **www.hkeipo.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 11 December 2015, the Application Lists will not open or close on that day. Further

EXPECTED TIMETABLE⁽¹⁾

information is set forth in the section headed “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.

- (4) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for Hong Kong Offer Shares — Applying by Giving **Electronic Application Instructions** to HKSCC via CCASS” in this prospectus.
- (5) The price determination date is expected to be on or around Friday, 11 December 2015 (Hong Kong time) and, in any event, not later than Friday, 18 December 2015 (Hong Kong time). If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and our Company by Friday, 18 December 2015, the Global Offering will not proceed and will lapse.
- (6) **Share certificates are expected to be issued on Friday, 18 December 2015 but will only become valid provided that the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Monday, 21 December 2015. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.**
- (7) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Hong Kong Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.chinahengshi.com.cn.
- (8) None of the websites or any of the information contained on the website forms part of this prospectus.
- (9) **e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.**

You should read carefully the sections headed “Underwriting,” “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” for details relating to the structure of the Global Offering, procedures on the applications for Hong Kong Offer Shares and the expected timetable, including conditions, effect of bad weather and the dispatch of refund cheques and Share certificates.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information not given or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Joint Lead Managers, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.

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SUMMARY

This summary is intended to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades. According to the DNV GL Report, we were the third largest manufacturer and supplier of fiberglass fabrics used in wind turbine blades globally based on sales volume by tonnage in 2014 and the only PRC-based company among the top three global players. According to the DNV GL Report, our sales volume accounted for approximately 13.7% of the total global market sales of fiberglass fabrics used in wind turbine blades in 2014. In 2014, we had the largest exporting volume of fiberglass fabrics used in wind turbine blades by tonnage among all PRC-based companies, according to the DNV GL Report.

Our business focus in recent years is to provide high quality fiberglass fabrics used in large-capacity onshore wind turbines with a unit capacity of 1.5 MW or above and offshore wind turbines. Supported by our strong research and development capabilities, we are one of the few manufacturers globally that is able to offer fiberglass fabrics used in wind turbines with a unit capacity of up to 8.0 MW. We are also a key participant in the development and formulation of the PRC industry standard of fiberglass stitched fabrics (玻璃纖維縫編織物 GB/T 25040-2010).

We believe that we have one of the most diverse and comprehensive fiberglass fabrics portfolios for applications in the wind turbine blade sector, and we are able to customise our fiberglass fabrics to satisfy the strictest technical specifications in our industry. As at 31 December 2014, we offered five types of fiberglass fabrics: multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. Among these products, multi-axial fabrics and uni-directional fabrics are our key products, most of which are sold to customers in the wind turbine blade sector, and the remaining products are mainly sold to customers in a variety of other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. During the Track Record Period, fiberglass fabrics manufactured and sold by us and used in the wind turbine blade sector, on average, accounted for approximately 75% of our revenue.

We currently have production facilities in Tongxiang, Zhejiang province in China and in Suez, Egypt. In 2014, our annual effective designed production capacity was 80,506 tonnes, of which 59,134 tonnes were suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector. We have completed the third phase (“Hengshi Phase III Expansion Plan”) to expand our production capacity in China, which commenced operation in July 2015, and intend to further expand our production capacity in China in 2016 and 2017 (“Hengshi Phase IV Expansion Plan”). In order to meet the growing market demand of fiberglass fabrics and optimise our supply chain in Europe, Middle East and Africa and to reduce the potential risks of anti-dumping or similar duties on our products manufactured in our PRC-based facilities, we have constructed production facilities in Egypt (“Egypt Phase I Expansion Plan”) and intend to further expand our production capacity in Egypt in 2016 (“Egypt Phase II Expansion Plan”). The construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We expect that our total annual effective designed production capacity will reach 133,355 tonnes in 2015, of which a maximum capacity of 109,602 tonnes would be suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector. As at 31 December 2014, all of our manufacturing machines used for the manufacture of fiberglass fabrics used in the wind turbine blade sector were purchased from leading global manufacturers of weave machines, as a result of which we believe that we are equipped with a large number of technologically advanced and high quality machines and equipment.

SUMMARY

We have over 14 years of operating history in the fiberglass fabrics industry and a strong and established reputation among the leading players in the global wind turbine blade sector. We believe that we are one of the top choices for customers pursuing high quality fiberglass fabrics used in wind turbine blades. Our key customers are manufacturers of wind turbines and blades worldwide and in China, including a number of players with significant market presence, such as Siemens, Vestas, Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司), Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司) and Lianyungang Zhongfu Lianzhong Composites Group Co., Ltd. (連雲港中複連眾複合材料集團有限公司). Our current customer base covers all of the leading global manufacturers of wind turbines and blades.

We achieved an overall significant growth in revenue and net profit during the Track Record Period. Our revenue was RMB441.0 million, RMB405.4 million and RMB678.6 million in 2012, 2013 and 2014, respectively, representing a CAGR of 24.1% from 2012 to 2014. Our revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015. Our revenue generated from sales to the wind turbine blade sector, which is the aggregate of sales of products specified in contracts for wind turbine blade sector, was RMB331.1 million, RMB301.7 million, RMB563.9 million and RMB432.7 million in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively, accounting for 75.1%, 74.4%, 83.1% and 86.5% of our total revenue during the same periods, respectively. Our net profit increased from RMB71.6 million in 2012 to RMB78.1 million in 2013 and further to RMB131.7 million in 2014, representing a CAGR of 35.6% from 2012 to 2014. Our net profit increased by RMB94.5 million, or 266.9%, from RMB35.4 million in the six months ended 30 June 2014 to RMB129.9 million in the six months ended 30 June 2015. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our gross profit margin was 23.8%, 20.8%, 28.1% and 30.1%, respectively, and our net profit margin was 16.2%, 19.3%, 19.4% and 26.0%, respectively.

BUSINESS MODEL

We manufacture fiberglass fabrics through our own production facilities with a focus on customers in the wind turbine blade sector. Since our inception in 2000, we have been dedicated to researching, developing and manufacturing fiberglass fabrics that are customised to various technical specifications required by our customers.

MAJOR CUSTOMERS AND SALES NETWORK

In 2014, our fiberglass fabrics were sold to customers in 18 countries overseas and Hong Kong and Taiwan, and to customers in China, covering 20 provinces.

Our customers primarily consist of (i) manufacturers of wind turbines and blades worldwide and in China, (ii) end customers in other industries, such as transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods, and (iii) certain trading companies. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our five largest customers accounted for 76.9%, 75.8%, 64.5% and 65.8% of our revenue, respectively, and our largest customer accounted for 33.7%, 26.7%, 20.3% and 17.8% of our revenue, respectively. For risks relating to our concentration of customers, see “Risk Factors — Risks Relating to Our Group — Our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may materially and adversely affect our results of operations” in this prospectus.

During the Track Record Period, we sold a portion of our products to certain trading companies, which included our related parties. Revenue generated from our sales to trading companies was RMB73.8 million, RMB114.2 million, RMB152.1 million and RMB47.8 million in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively, accounting for 16.8%, 28.2%, 22.4% and 9.6% of our total revenue for the same periods, respectively. Of these sales, revenue generated from our sales to related-party trading companies was RMB19.9 million, RMB54.1 million, RMB102.2 million and RMB36.0 million, respectively, accounting for 4.5%, 13.4%, 15.1% and 7.2% of our total revenue for the same periods, respectively. For details, see “Business — Customers, Sales and Marketing — Trading-company Customers” in this prospectus.

SUMMARY

MAJOR SUPPLIERS

Fiberglass is the key raw material used by us to manufacture fiberglass fabrics. During the Track Record Period, we purchased substantially all raw materials, directly or indirectly, from China Jushi (through Zhenshi), most of which was fiberglass. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our aggregate purchases of raw materials from China Jushi and Zhenshi amounted to RMB257.3 million, RMB208.3 million, RMB395.4 million and RMB271.5 million, respectively, and accounted for 76.6%, 64.9%, 81.0% and 77.7% of our total cost of sales for the same periods, respectively.

According to the DNV GL Report, China Jushi, through its wholly-owned subsidiary Jushi Group, is the second largest fiberglass manufacturer worldwide and the largest fiberglass manufacturer in Asia in terms of sales volume by tonnage in 2014, accounting for approximately 17% and 29% of the global and Asian market shares during the same year, respectively. China Jushi has been listed on the Shanghai Stock Exchange in China under stock code “600176” since April 1999 and had a market capitalisation of approximately RMB20.7 billion as at 30 November 2015. In each of 2012 and 2013, we were the second largest customer for China Jushi. In 2014, we were the largest customer for China Jushi, contributing to 6.6% of its revenue. To secure a long-term supply from China Jushi, on 1 January 2015, we entered into a strategic cooperation agreement with Jushi Group with respect to the procurement and research and development of fiberglass. Taking into consideration, among other factors, our stable, mutual and complementary business relationship with China Jushi since our inception in 2000, China Jushi’s product quality and strong reputation in the fiberglass industry and the transportation and packaging cost advantages we enjoy due to our close proximity to China Jushi, we intend to continue sourcing most of the fiberglass we need from China Jushi. We also believe that given the dominant position of China Jushi in the PRC fiberglass market, the risk associated with our sourcing most of the fiberglass we need from China Jushi is not a risk specific to us. In addition, we also seek to locate alternative suppliers that are ready to provide fiberglass to us so as to ensure that our production will not be disrupted if China Jushi reduces the amount of fiberglass it provides to us or ceases providing fiberglass to us altogether. For details about our commercial considerations for sourcing fiberglass from China Jushi and our plan to diversify our supplier base, see “Business — Raw Materials, Packaging Materials and Suppliers — Purchases of fiberglass from China Jushi” in this prospectus.

As at the Latest Practicable Date, Zhenshi was owned as to 70.28% by our chairman, non-executive Director and ultimate Controlling Shareholder, Mr. Zhang Yuqiang. As at 30 September, 2015, Zhenshi held a 19.76% equity interest in China Jushi, and Mr. Zhang Yuqiang is also the general manager and a director of China Jushi. In addition, Mr. Tang Hsin-hua, who was China Jushi’s supervisor and held a 0.77% interest in China Jushi as at the Latest Practicable Date, owned a 30.0% equity interest in our Company, and one director and one senior management member of China Jushi owned, in aggregate, less than 1.3% equity interest in our Company as at the Latest Practicable Date. Save as disclosed above, none of China Jushi’s directors, supervisors or senior management members was our Director or senior management member or held equity interest in our Company as at the Latest Practicable Date. China Jushi is not a connected person of our Company for the purpose of the Listing Rules.

During the Track Record Period, except for purchases we made directly from China Jushi in 2012 and January 2013, we purchased fiberglass and substantially all the other raw materials and packaging materials from Zhenshi under its centralised procurement policy for companies controlled by it, with Zhenshi in turn sourcing the relevant materials from suppliers on a back-to-back basis. We have ceased procurement of raw materials and packaging materials from Zhenshi and have directly purchased such materials from the relevant suppliers since 1 April 2015. We do not intend to make similar purchases through Zhenshi in the future.

PRODUCTION EXPANSION PLAN

We have completed our Hengshi Phase III Expansion Plan and Egypt Phase I Expansion Plan to expand production capacity in 2015. We intend to further expand our production capacity in 2016 and 2017 by carrying out our Hengshi Phase IV Expansion Plan and Egypt Phase II Expansion Plan. A portion of the net proceeds from the Global Offering will be used to fund our Hengshi Phase IV Expansion Plan. For details, see “Business — Production — Future Expansion Plans” and “Future Plans and Use of Proceeds.”

SUMMARY

OUR COMPETITIVE STRENGTHS AND STRATEGIES

We believe that the following competitive strengths have contributed to our success and differentiate us from our competitors:

- We are well positioned to benefit from the long-term potential growth of the wind turbine blade sector.
- We are a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades.
- We benefit from the high barriers to entry in the fiberglass fabrics industry with applications in the wind turbine blade sector.
- We possess strong research and development capabilities and solid experience in the fiberglass fabrics industry, which afford us a high degree of recognition among our customers.
- Our customer base covers all of the leading wind turbine and blade manufacturers globally and in China, and we benefit from our long-term, stable relationships with major customers.
- We have an experienced and committed management team with a strong track record.

Our objectives are to further consolidate and enhance our market leadership globally and become the global leader for the research and development and manufacture of fiberglass fabrics with applications in the wind turbine blade sector. In order to achieve such objective, we intend to implement the following key business strategies:

- Continue to consolidate our leading position globally and enhance market share in the global market of fiberglass fabrics with applications in the wind turbine blade sector.
- Optimise supply chain to achieve an efficient cost structure through overseas production facilities.
- Continue to maintain and enhance our strong research and development capabilities.
- Further enhance our diverse product portfolio and enter markets with growth potential.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATIONAL INFORMATION

The following is the summary of the consolidated financial and operational information of our Group. We have derived the consolidated financial information as at and for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015 from our consolidated financial information in the Accountants' Report set out in Appendix I to this prospectus. We have prepared our financial information in accordance with IFRS.

SUMMARY

Summary Consolidated Statements of Comprehensive Income

The following table sets forth, for the periods indicated, selected items from our consolidated statements of profit or loss and other comprehensive income.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	440,963	405,393	678,600	292,798	500,178
Cost of sales	(335,986)	(320,952)	(487,941)	(214,649)	(349,507)
Gross profit	104,977	84,441	190,659	78,149	150,671
Other income	25,453	37,437	26,865	12,874	6,518
Other gains and losses	32,338	50,921	37,028	(1,296)	64,940
Selling and distribution expenses	(27,288)	(30,215)	(43,974)	(21,004)	(30,885)
Administrative expenses	(11,921)	(10,978)	(13,495)	(6,891)	(13,420)
Research expenditure	(15,284)	(13,310)	(21,004)	(8,769)	(15,574)
Finance costs	(30,086)	(34,174)	(25,507)	(13,406)	(10,727)
Profit before tax	77,453	83,454	147,479	38,954	142,797
Profit for the year/period	<u>71,612</u>	<u>78,110</u>	<u>131,734</u>	<u>35,437</u>	<u>129,891</u>
Total comprehensive income for the year/period	<u>71,612</u>	<u>78,110</u>	<u>131,666</u>	<u>35,437</u>	<u>128,669</u>

Our total revenue decreased by RMB35.6 million, or 8.1%, from RMB441.0 million in 2012 to RMB405.4 million in 2013, primarily due to the slowdown in the demand from our customers in the global wind turbine blade sector, which was principally caused by changes in U.S. government policies. Our revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015, primarily due to the increase of our revenues derived from the PRC of RMB177.6 million, or 207.5%, from RMB85.6 million in the six months ended 30 June 2014 to RMB263.2 million in the six months ended 30 June 2015. Such increase was primarily due to the fact that the reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or those authorised before 1 January 2015 but connected to the grid after 1 January 2016. As a result of such policy change, we believe many of our customers with onshore wind farms authorised before 1 January 2015 will increase or have increased the pace of construction of their wind farms so that they can take advantage of existing feed-in tariffs by connecting to the grid before 1 January 2016. As we expect the onshore wind farm growth activities in the PRC to slow down after 1 January 2016, the growth rate of our revenue in the six months ended 30 June 2015 as compared to the same period of 2014 may not be sustainable in future. For the associated risk, see “Risk Factors — Risks Relating to Our Group — The growth of our revenue in the six months ended 30 June 2015 as compared to the same period of 2014 was primarily due to the growth of our revenue derived from the PRC market as a result of policy change on feed-in tariffs in China, therefore, such growth rate may not be sustainable in future.” Our trade and other receivables increased from RMB182.5 million as at 31 December 2014 to RMB317.2 million as at 30 June 2015, primarily reflecting (i) an increase in our sales and (ii) the higher percentage of our sales to PRC-based customers in the first six months of 2015 as compared with 2014 and the longer credit periods we granted to our PRC-based customers as compared with our overseas customers. Our bills payables increased from RMB10.5 million as at 31 December 2014 to RMB103.9 million as at 30 June 2015, primarily due to increased amount of bills we issued to Jushi Group, China Jushi, Yushi International and other independent third party suppliers for the settlement of raw material and services we purchased as a result of our increased revenue as well as our increased use of bank accepted bills to settle the payments to our suppliers after we started purchasing raw materials and packaging materials directly from our suppliers on 1 April 2015. For detailed information, see “Business — Raw Materials, Packaging Materials and Suppliers — Suppliers.” As we generated on average approximately 75% of our revenue from sales to the wind turbine blade sector during the Track Record Period, our business was affected, and will be affected, directly and indirectly, by supply and demand changes in such industry. For the associated risks, see “Risk Factors — Risks Relating to Our Group —

SUMMARY

Our results of operations depend on the conditions of the industries in which our customers operate, especially the wind turbine blade sector” in this prospectus.

Adjusted Profit

We received aggregate interest payments of RMB11.4 million, RMB23.3 million, RMB16.6 million, RMB9.8 million and RMB2.9 million arising from non-compliant inter-company advances in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, and gain on release of financial guarantee contracts of RMB34.9 million, RMB47.6 million, RMB38.2 million, RMB15.8 million and RMB65.3 million relating to the release of guarantees we provided to banks in respect of bank facilities granted to our related parties and a shareholder in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively. These interest payments and gain on release of financial guarantee contracts are non-recurring as we do not intend to make non-compliant inter-company loans or provide guarantees for our related parties and shareholders in the future. Our profit before tax was RMB77.5 million, RMB83.5 million, RMB147.5 million, RMB39.0 million and RMB142.8 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 17.6%, 20.6%, 21.7%, 13.3% and 28.5% of our revenue during the same periods, respectively. Excluding the impact of the interest payments arising from non-compliant inter-company advances and the gain on release of financial guarantee contracts, our adjusted profit before tax would have been RMB31.1 million, RMB12.6 million, RMB92.7 million, RMB13.3 million and RMB74.6 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 7.1%, 3.1%, 13.7%, 4.6% and 14.9% of our revenue during the same periods, respectively. Our adjusted total comprehensive income would have been RMB25.3 million, RMB7.2 million, RMB77.0 million, RMB9.8 million and RMB61.7 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively. As such, our historical profit before tax or total comprehensive income for the year or period may not be indicative of our future results of operations.

During the Track Record Period, we generated a significant amount of profit from activities which are not in our ordinary and usual course of business. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, the aggregate amount of profit from interest payments arising from non-compliant inter-company advances and gain on release of financial guarantee contracts were RMB46.3 million, RMB70.9 million, RMB54.8 million, RMB25.6 million and RMB68.2 million, respectively, representing 59.8%, 85.0%, 37.2%, 65.7% and 47.8% of our profit before tax during the same periods, respectively.

The table below sets forth, for the periods indicated, the adjusted total comprehensive income after excluding the impact of the interest payments arising from non-compliant inter-company advances and the gain on release of financial guarantee contracts.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	77,453	83,454	147,479	38,954	142,797
Adjusted for:					
Interest payment arising from non-compliance inter-company advances	11,410	23,272	16,553	9,811	2,901
Gain on release of financial guarantee contracts ⁽¹⁾	34,900	47,600	38,200	15,800	65,300
Adjusted profit before tax	31,143	12,582	92,726	13,343	74,596
Adjusted profit for the year/period	<u>25,302</u>	<u>7,238</u>	<u>76,981</u>	<u>9,826</u>	<u>61,690</u>
Adjusted total comprehensive income for the year/ period	<u>25,302</u>	<u>7,238</u>	<u>76,913</u>	<u>9,826</u>	<u>60,468</u>

Note:

(1) Fair values of the financial guarantee contracts initially granted to our then Shareholders are considered as deemed distribution and recorded in retained profit. Upon release of the financial guarantee contracts, our obligations arising from these financial guarantee

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contracts are discharged, and the carrying amount of the financial guarantee obligation are released and credited to “other gains or losses” in profit or loss. Please see note (b) to the Consolidated Statements of Changes in Equity in the Accountants’ Report and Note 30 to the Accountants’ Report in Appendix I to this prospectus.

In 2012, 2013 and 2014 and the six months ended 30 June 2015, our gross profit margin was 23.8%, 20.8%, 28.1% and 30.1%, respectively, and our net profit margin was 16.2%, 19.3%, 19.4% and 26.0%, respectively.

Summary of Reportable Segments Financial Information

The table below sets forth, for the periods indicated, a breakdown of our revenue by products.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Multi-axial fabrics	344,374	78.1%	296,236	73.1%	488,122	71.9%	216,262	73.9%	366,265	73.2%
Uni-directional fabrics	64,663	14.7%	61,908	15.3%	132,478	19.5%	42,161	14.4%	102,990	20.6%
Woven roving combo mats	22,416	5.1%	19,567	4.8%	20,708	3.1%	9,509	3.2%	10,295	2.1%
Stitched mats	5,403	1.2%	8,795	2.1%	8,924	1.3%	4,558	1.6%	1,898	0.4%
E/PP compofil fabrics	4,107	0.9%	18,887	4.7%	28,368	4.2%	20,308	6.9%	18,730	3.7%
Total	440,963	100.0%	405,393	100.0%	678,600	100.0%	292,798	100.0%	500,178	100.0%

The table below sets forth, for the periods indicated, a breakdown of our revenue by application of products.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Products used in wind turbine blade sector ⁽¹⁾ ..	331,133	75.1%	301,670	74.4%	563,940	83.1%	237,762	81.2%	432,715	86.5%
Products used in other industries	109,830	24.9%	103,723	25.6%	114,660	16.9%	55,036	18.8%	67,463	13.5%
Total	440,963	100.0%	405,393	100.0%	678,600	100.0%	292,798	100.0%	500,178	100.0%

Note:

- (1) Represents revenue derived from products that are specified in contracts for use in the wind turbine blade sector based on contract terms.

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The table below sets forth, for the periods indicated, a breakdown of our revenue by location of our customers to which we deliver our products.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Overseas markets										
Europe	173,466	39.3%	138,773	34.2%	195,962	28.9%	96,738	33.0%	131,933	26.4%
North										
America	104,978	23.8%	77,451	19.1%	136,468	20.1%	70,862	24.2%	94,372	18.9%
Asia ⁽¹⁾	27,974	6.3%	59,283	14.6%	74,006	10.9%	37,517	12.8%	8,944	1.8%
Latin										
America	875	0.2%	2,857	0.7%	5,853	0.9%	1,835	0.6%	1,617	0.3%
Australia	701	0.2%	555	0.1%	334	0.0%	242	0.08%	104	0.02%
Subtotal	<u>307,994</u>	<u>69.8%</u>	<u>278,919</u>	<u>68.8%</u>	<u>412,623</u>	<u>60.8%</u>	<u>207,194</u>	<u>70.8%</u>	<u>236,970</u>	<u>47.4%</u>
PRC market ⁽²⁾	<u>132,969</u>	<u>30.2%</u>	<u>126,474</u>	<u>31.2%</u>	<u>265,977</u>	<u>39.2%</u>	<u>85,604</u>	<u>29.2%</u>	<u>263,208</u>	<u>52.6%</u>
Total	<u>440,963</u>	<u>100.0%</u>	<u>405,393</u>	<u>100.0%</u>	<u>678,600</u>	<u>100.0%</u>	<u>292,798</u>	<u>100.0%</u>	<u>500,178</u>	<u>100.0%</u>

Notes:

- (1) Includes Hong Kong, Macau and Taiwan and excludes the PRC.
(2) Excludes Hong Kong, Macau and Taiwan.

Summary of Consolidated Balance Sheet Items

The table below sets forth, as at the balance sheet dates indicated, selected items from our consolidated statements of financial position.

	As at 31 December			As at
	2012			30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets	382,680	352,406	490,653	541,806
Total current assets	700,716	731,734	634,326	674,240
Total current liabilities	677,706	667,419	472,171	627,691
Total non-current liabilities	—	—	102,899	10,014
Net current assets	23,010	64,315	162,155	46,549
Total equity	405,690	416,721	549,909	578,341

Summary of Cash Flow Items

The table below sets forth, for the periods indicated, selected items from our consolidated statements of cash flows.

	Year ended 31 December			Six months ended	
	2012			30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)				
Net cash generated from (used in) operating activities ...	124,147	(35,880)	1,625	12,592	106,436
Net cash generated from (used in) investing activities	(110,064)	(91,156)	110,155	175,088	(2,980)
Net cash generated from (used in) financing activities ...	44,851	35,673	(83,402)	(157,764)	(95,482)
Net increase (decrease) in cash and cash equivalents	58,934	(91,363)	28,378	29,916	7,974
Cash and cash equivalents at the beginning of the year/ period	<u>65,510</u>	<u>124,463</u>	<u>33,412</u>	<u>33,412</u>	<u>61,741</u>
Cash and cash equivalents at the end of the year/ period	<u>124,463</u>	<u>33,412</u>	<u>61,741</u>	<u>63,185</u>	<u>69,797</u>

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Summary of Material Operational Information

The table below sets forth, for the periods indicated, the sales volume, average selling price and revenue of our products.

	Year ended 31 December									Six months ended 30 June					
	2012			2013			2014			2014			2015		
	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue	Sales volume	Average selling price	Revenue
		RMB	RMB'000		RMB	RMB'000		RMB	RMB'000		RMB	RMB'000		RMB	RMB'000
Multi-axial fabrics	31,402	10,967	344,374	28,960	10,229	296,236	48,794	10,004	488,122	21,311	10,148	216,262	35,155	10,418	366,265
Uni-directional fabrics	6,558	9,860	64,663	6,810	9,090	61,908	13,250	9,999	132,478	4,468	9,436	42,161	9,920	10,382	102,990
Woven roving combo mats	2,524	8,880	22,416	2,246	8,713	19,567	2,366	8,752	20,708	1,099	8,650	9,509	1,179	8,733	10,295
Stitched mats	746	7,238	5,403	1,170	7,519	8,795	1,136	7,852	8,924	580	7,853	4,558	226	8,410	1,898
E/PP compofil fabrics	199	20,634	4,107	941	20,065	18,887	1,490	19,043	28,368	1,071	18,966	20,308	990	18,925	18,730
Total	41,430	10,644	440,963	40,127	10,103	405,393	67,036	10,123	678,600	28,529	10,263	292,798	47,470	10,537	500,178

The following table sets forth, for the periods indicated, our designed effective production capacity, actual production volume and utilisation rates for all products.

	Year ended 31 December									Six months ended 30 June		
	2012			2013			2014			2015		
	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate
	(in tonnes, except for percentages)											
	57,666	40,786	70.7%	61,173	42,262	69.1%	80,506	68,348	84.9%	59,441	49,157	82.7%

Note:

(1) Designed effective production capacity for all products is calculated based on the production of standardised products and the production facilities operating 20.5 hours a day and based on 365 days a year (or 183 days for a six-month period). The designed effective production capacity for all products for a given period equals to (i) the production capacity at the beginning of the period, plus (ii) weighted newly added production capacity during the relevant period. Weighted newly added production capacity during a period is derived by multiplying (x) the total newly added production capacity during such period with (y) the number of months during which the new production capacity is in operation during such period and (z) divided by 12 months for a one-year period or six months for a six-month period. The calculation basis of 20.5 hours is based on three eight-hour shifts we have for production, after deducting maintenance time.

Our designed effective production capacity for a given year is usually lower than the annual designed production capacity as at the end of the same year, because the annualised full capacity of newly added machines and equipment is used to calculate our annual designed production capacity as at the end of a given year, whereas their weighted newly added production capacity is used to calculate our designed effective production capacity for a given year.

The following table sets forth, for the periods indicated, our designed effective production capacity, actual production volume and utilisation rates for products used in wind turbine blades.

	Year ended 31 December									Six months ended 30 June		
	2012			2013			2014			2015		
	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate
	(in tonnes, except for percentages)											
	41,068	30,766	74.9%	42,938	30,201	70.3%	59,134	56,293	95.2%	47,565	45,402	95.5%

Note:

(1) Designed effective production capacity for products used in wind turbine blades is calculated on the same basis as designed effective production capacity for all products, excluding the designed effective production capacity of machines that are not suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector.

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Our designed effective production capacity for a given year is usually lower than the annual designed production capacity as at the end of the same year, because the annualised full capacity of newly added machines and equipment is used to calculate our annual designed production capacity as at the end of a given year, whereas their weighted newly added production capacity is used to calculate our designed effective production capacity for a given year.

For details about the calculation of our designed effective production capacity and fluctuations in our utilisation rates during the Track Record Period, see “Business — Production — Production Facilities and Capacities” in this prospectus.

KEY FINANCIAL RATIOS

The table below sets forth, as at the balance sheet dates or for the periods indicated, certain financial ratios.

	Notes	Year ended 31 December/As at 31 December			Six months ended 30 June/As at 30 June
		2012	2013	2014	2015
<i>Liquidity ratios</i>					
Current ratio (times)	(1)	1.0x	1.1x	1.3x	1.1x
Quick ratio (times)	(2)	0.9x	1.0x	1.2x	0.9x
<i>Capital adequacy ratios</i>					
Debt-to-equity ratio	(3)	136.4%	152.1%	93.3%	98.2%
Gearing ratio	(4)	167.1%	160.2%	104.6%	110.3%
<i>Profitability ratios</i>					
Return on assets	(5)	7.2%	7.2%	11.9%	22.2%
Return on equity	(6)	19.1%	19.0%	27.3%	46.0%

Notes:

- (1) Current ratio represents current assets as at a record date divided by current liabilities as at the same record date.
- (2) Quick ratio represents current assets excluding inventory as at a record date divided by current liabilities as at the same record date.
- (3) Debt-to-equity ratio represents total net debt (which is equal to total borrowings less cash and cash equivalents) as at a record date divided by total equity multiplied by 100% as at the same record date.
- (4) Gearing ratio represents total borrowings as at a record date divided by total equity multiplied by 100% as at the same record date.
- (5) Return on assets represents net profit for a period divided by the average assets multiplied by 100% as at the beginning and the end of such period on an annualised basis.
- (6) Return on equity represents net profit for a period divided by the average equity multiplied by 100% as at the beginning and the end of such period on an annualised basis.

SHAREHOLDERS' INFORMATION

Upon the completion of the Reorganisation, our Controlling Shareholders, Mr. Zhang Yuqiang and Huachen Investment Limited, held 43.95% of the issued Shares. Immediately following the completion of the Global Offering, our Controlling Shareholders will hold 32.96% of the issued Shares (assuming the Over-allotment Option is not exercised) or 31.77% of the issued Shares (assuming the Over-allotment Option is exercised in full).

There is no competition between the business of our Controlling Shareholders and our business. Our Directors believe that our Group is capable of carrying out its business independently of our Controlling Shareholders and their associates.

DNV GL REPORT

Certain information included in this prospectus is quoted from the DNV GL Report issued by GLIS Shanghai. GLIS Shanghai prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organisations. In evaluating the use of fiberglass fabrics in the wind turbine blade sector, GLIS Shanghai has performed both “supply side” and “demand side” evaluations. Supply side data has been taken from industry sources indicating the amount of various materials currently being

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sold for the manufacture of wind turbine blades, as well as planned future production. The demand side evaluation has been performed using a blade structure computer model to define the material distribution by weight in typical blades, and the projected markets for wind turbines. This evaluation includes the expected regionally-specific installed wind turbine quantities and blade sizes, current and future trends in blade design and material selection, as well as blade replacement efforts at existing wind farms. Supply side and demand side results have been compared for consistency and as independent checks on the overall study results. The “supply side” data obtained by GLIS Shanghai, however, has several elements of uncertainty, including (i) the time lag between fiberglass fabric orders, manufacturing of fiberglass fabrics and use of fiberglass fabrics in the production of wind turbine blades, (ii) the under-estimates or over-reporting of sales volume of fiberglass fabrics used in wind turbine blades by other fiberglass fabrics manufacturers, and (iii) the occurrence of re-blading at certain rates.

OFFERING STATISTICS

The following table sets out certain offering related data, assuming that: (i) the Global Offering has been completed and 250,000,000 Shares are newly issued in the Global Offering; (ii) 1,000,000,000 Shares are issued and outstanding following completion of the Global Offering; and (iii) the Over-allotment Option has not been exercised.

	Based on an Offer Price of HK\$1.80 per Share	Based on an Offer Price of HK\$2.60 per Share
Market capitalisation of our Shares upon completion of the Global Offering ⁽¹⁾	HK\$1,800 million	HK\$2,600 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$1.13	HK\$1.33

Notes:

- (1) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue immediately upon completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and on the basis that 1,000,000,000 Shares are expected to be in issue immediately upon completion of the Global Offering.

USE OF PROCEEDS

Assuming an Offer Price of HK\$2.20 per Share, being the mid-point of the Offer Price range stated in the prospectus), and prior to any exercise of the Over-allotment Option, we estimate that we will receive net proceeds of approximately HK\$482 million from the Global Offering after deduction of underwriting fees and commissions and other estimated expenses payable by us in connection with the Global Offering. We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below.

Amount of the estimated net proceeds	Intended use of net proceeds
• approximately 45%, or HK\$218 million	support of our Hengshi Phase IV Expansion Plan, the details of which are set forth in “Business — Production — Future Expansion Plans — Production Capacity Expansion in China”
• approximately 30%, or HK\$144 million	partial repayments of bank loans
• approximately 15%, or HK\$72 million	purchase of a property from Zhenshi in Tongxiang, Zhejiang Province, the details of which are set forth in “Connected Transactions — Non-recurrent Connected Transactions — Acquisition of a Property”
• approximately 10%, or HK\$48 million	general working capital of our Group

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The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the proposed Offer Price range or if the Over-allotment Option is exercised. For details of our future plans and use of proceeds, see “Future Plans and Use of Proceeds” in this prospectus.

DIVIDEND POLICY

During the Track Record Period, we declared dividends in the amount of RMB14.8 million, RMB33.0 million, RMB29.8 million, RMB52.4 million and RMB95.0 million to our then shareholders on 29 August 2012, 29 November 2013, 28 May 2014, 25 February 2015 and 14 April 2015, respectively, of which RMB13.3 million, RMB29.7 million, RMB28.7 million and RMB47.1 million were reinvested by our then shareholders and transferred to our capital on 8 November 2012, 26 January 2014, 17 July 2014 and 24 March 2015, respectively. The rest of the declared dividends were paid to our then shareholders. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

We may declare dividends in the future after taking into account our financial and business conditions, earnings, capital requirements and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of our constitutional documents and the Cayman Companies Law. Our Board or Shareholders in general meeting may declare dividends, which may not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

We currently intend to pay dividends to our Shareholders of approximately 30% of our profit available for distribution after the Global Offering, subject to, in each case, our Board’s decision after a comprehensive review of our Company’s financial performance, future expectations and other factors deemed relevant by our Board, and our Shareholders’ approval.

RECENT DEVELOPMENT

During the period from 1 July 2015 to 31 October 2015, we recorded a loss of RMB4.0 million in relation to the foreign currency forward contracts held by us as of 30 June 2015. We enter into such foreign currency forward contracts for the revenue generated from our overseas sales so that we can lock down the RMB-equivalent sales amount to be received by us and avoid any uncertainties with respect to its expected income. The loss on foreign currency forward contracts is expected to be offset by revenues from overseas customers denominated in US dollars. For the risks associated with our foreign currency forward contracts see “Risk Factors—Risks Relating to Our Group—We are subject to foreign exchange rate risks and our risk management measures may not be effective.”

On 17 August 2015, by capitalisation of our Company’s other reserve, we issued 329,558,553 shares, 120,381,447 shares, 224,970,000 shares and 74,990,000 shares of the Company to Huachen Investment Limited, Huakai Investment Limited, Trade Power Investments Limited and Joyfar Limited, respectively, for a consideration of US\$43.6 million, US\$15.9 million, US\$29.8 million and US\$9.9 million, respectively.

We have completed the Phase I construction of our Egypt facilities in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016.

On 4 December 2015, we entered into a property sale and purchase agreement with Zhenshi, pursuant to which Zhenshi agreed to sell and we agreed to purchase three floors of office space (the “Property”) in a building which is under construction at Gexin Area, Zhendong New District, Tongxiang, Zhejiang Province, the PRC (中國浙江省桐鄉市振東新區革新區塊) for a total consideration of approximately RMB75.9 million. For further details about the acquisition of the Property, see “Connected Transactions — Non-recurrent Connected Transactions — Acquisition of a property.” Our Directors confirm that our interest in the Property has a carrying

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amount (as defined in the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) (the “Exemption Notice”)) of less than 15% of our Group’s total assets as of 30 June 2015.

Based on our unaudited management accounts, our average monthly revenue for the four months ended 31 October 2015 has seen a slight decrease as compared with the average monthly revenue for the six months ended 30 June 2015. Such decrease was primarily due to fluctuation of the wind power market as well as a delay in the customer certification process for some of our products. Although we have recently experienced market fluctuations, based on the DNV GL Report, the PRC wind power market is expected to have an overall upward trend in the next five years.

During Track Record Period, we recognised gain on release of financial guarantee contracts of RMB34.9 million, RMB47.6 million, RMB38.2 million, RMB15.8 million and RMB65.3 million in 2012, 2013, 2014 and six months ended 30 June 2014 and 2015. Such gain on financial guarantee contracts are non-recurring as we do not intend to provide guarantee contracts for our related parties and shareholders in the future. We do not expect to recognise any such gain for the six months ending 31 December 2015. Please see section headed “Financial Information — Description of Principal Consolidated Statements of Comprehensive Income Items — Other gains and losses”.

Our Directors confirm that other than the above, there has been no material change in our business, results of operations and financial condition since 30 June 2015 up to the date of the prospectus.

OUR BUSINESS ACTIVITIES IN EGYPT

In order to meet the growing market demand of fiberglass fabrics and optimise our supply chain in Europe, Middle East and Africa and to reduce the potential risks of anti-dumping or similar duties on our products manufactured in our PRC-based facilities, we have completed our Egypt Phase I Expansion Plan to construct production facilities in Suez, Egypt, and intend to further expand our production capacity in Egypt in 2016. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We do not intend to fund the expansion of our Egyptian facilities with the proceeds from the Global Offering. We have set up a subsidiary in Egypt in December 2014 in connection with our expansion plans in Egypt. Upon the completion of our expansion plans in Egypt in 2016, our annual designed production capacity in Egypt is estimated to be 20,472 tonnes and we plan to supply products manufactured in Egypt to our customers in Europe, the Middle East and Africa. As at the Latest Practicable Date, none of our customers is on the EU’s sanction list against Egypt. For details, see “Business—Production—Future Expansion Plans—Production Capacity Expansion in Egypt.”

In March 2011, the EU introduced asset freezing measures against assets owned or controlled by persons, entities and bodies designated as being responsible for the misappropriation of Egyptian state funds or corruption (the “Egyptian Sanctions Regime”). In relation to our business activities in Egypt during the Track Record Period, we have not been notified that any sanctions will be imposed on us. None of the contracting parties are specifically identified by the Egyptian Sanctions Regime as sanction target. Further, our Egyptian subsidiary is not an EU-incorporated entity or managed by EU nationals and our clients in Europe whom we intend to serve by our Egyptian facilities are typically internationally-known wind industry business.

Based on the aforesaid facts, as advised by our legal adviser as to EU sanctions law, the risk of our business activities having violated, or currently being in violation of, the Egyptian Sanctions Regime and the risk that our Group, or any person or entity, including our Group’s investors, our Shareholders, the Stock Exchange, HKSCC and HKSCC Nominees will be subject to the Egyptian Sanctions Regime are low.

LISTING EXPENSES

The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and excluding all discretionary incentive

SUMMARY

fees in the Global Offering) in relation to the Global Offering are approximately RMB53.9 million, of which RMB28.4 million was or will be charged as other expenses to our consolidated statements of profit or loss and other comprehensive income and RMB25.5 million was or will be charged against equity. For the year ended 31 December 2014 and the six months ended 30 June 2015, we recognised RMB2.2 million and RMB8.6 million of listing expenses as our other expenses, respectively. The estimated listing expenses are approximately RMB51.7 million for the 12 months ending 31 December 2015.

RISK FACTORS

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorised into (i) risks relating to our Group, (ii) risks relating to industries relevant to our business, (iii) risks relating to doing business in the PRC and (iv) risks relating to the Global Offering. We believe that the most significant risks we face include:

- We purchased all fiberglass used for the manufacture of our wind power related products and substantially all fiberglass used for the manufacture of our other products, directly or indirectly, from China Jushi, during the Track Record Period.
- Our results of operations depend on the conditions of the industries in which our customers operate, especially the wind turbine blade sector.
- Our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may materially and adversely affect our results of operations.
- Our ability to enhance production capabilities in both China and overseas is subject to risks and uncertainties.
- We are subject to risks associated with our international businesses and operations, including risks associated with our business and operations in Egypt and anti-dumping duties that may be imposed on our products.
- If any uncertainties or adverse changes in government investments, initiatives and policies affect the wind turbine blade sector or other industries in which our customers operate, preventing such industry from sustaining its current pace of growth, our growth, profitability and future prospects could be materially and adversely affected.

In addition, we have some historical non-compliance incidents relating to bill financing and inter-company loans. For details, see “Business — Regulatory Compliance and Legal Proceedings” in this prospectus. A detailed discussion of all the risk factors involved are set forth in the section headed “Risk Factors” in this prospectus and you should read the whole section carefully before you decided to invest in the Offer Shares.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions shall have the following meanings:

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them, that are used in connection with the Hong Kong Public Offer
“Articles of Association” or “Articles”	the articles of association of the Company that were conditionally adopted on 4 December 2015 and to take effect upon Listing and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
“Board” or “Board of Directors”	the board of directors of our Company
“Business Day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate
“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“CBRC”	China Banking Regulatory Commission (中國銀行業監督管理委員會)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China Jushi”	China Jushi Co., Ltd. (中國巨石股份有限公司), a stock company established under the laws of the PRC with limited liability on 16 April 1999, whose shares are listed on the Shanghai Stock Exchange (Stock Code: 600176). As at 30 September, 2015, Zhenshi directly held a 19.76% equity interest in China Jushi
“Co-Lead Manager”	First Shanghai Securities Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Company” and “our Company”	China Hengshi Foundation Company Limited (中國恒石基業有限公司), a company incorporated in the Cayman Islands on 23 February 2015
“Controlling Shareholders”	Mr. Zhang Yuqiang and Huachen Investment Limited
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Director(s)”	the director(s) of our Company
“DNV GL”	DNV GL Group AS, an independent certification body for renewable energy
“DNV GL Report”	the report commissioned by the Company and provided by GLIS Shanghai on the industry information of fiberglass fabrics, particularly with respect to its applications in the wind turbine blade sector
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) passed by the National People’s Congress of the PRC on 16 March 2007 and taking effect on 1 January 2008, as amended, supplemented and otherwise modified from time to time
“GDP”	gross domestic product
“GLIS Shanghai”	Germanischer Lloyd Industrial Services (Shanghai) Co. Ltd., an Independent Third Party, which is a technical consulting company and offers consulting, inspection and measurement services
“Global Offering”	the Hong Kong Public Offer and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group,” “we,” “our” and “us”	our Company and its subsidiaries and, if the context requires, its jointly controlled companies and associated companies
“Hengshi Fiberglass”	Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. (浙江恒石纖維基業有限公司), a company with limited liability established in China on 7 September 2000 and an wholly-owned subsidiary of the Company, formerly known as Zhenshi Group Hengshi Fiberglass Fabrics Co., Ltd. (振石集團恒石纖維基業有限公司) and before that as Tongxiang Hengshi Fiber Foundation Company Limited (桐鄉恒石纖維基業有限公司)
“HK eIPO White Form”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk

DEFINITIONS

“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by the Company, as specified on the designated website www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong dollars,” “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
“Hong Kong Offer Shares”	the 25,000,000 Shares being initially offered by our Company for subscription at the Offer Price under the Hong Kong Public Offer (subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offer”	the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to and in accordance with the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Share Register”	the register of members of our Shares maintained by the Hong Kong Share Registrar in Hong Kong
“Hong Kong Share Registrar”	Tricor Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus, being the underwriters of the Hong Kong Public Offer
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 7 December 2015 relating to the Hong Kong Public Offer and entered into among by the Sole Global Coordinator, the Hong Kong Underwriters and the Company, as further described in the section headed “Underwriting — Hong Kong Public Offer — Hong Kong Underwriting Agreement” in this prospectus
“Huamei”	Zhenshi Group Huamei New Materials Company Limited (振石集團華美新材料有限公司), a company with limited liability established in the PRC on 20 July 2005 and a subsidiary of Zhenshi
“IFRS”	the International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board

DEFINITIONS

“Independent Third Party”	entity or person who as far as the Directors are aware after having made all reasonable enquiries is not a connected person of our Company
“International Offering”	the offer of the International Offering Shares at the Offer Price outside the United States in offshore transactions in accordance with Regulation S under the U.S. Securities Act, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering Shares”	the 225,000,000 Shares being initially offered under the International Offering together with, where relevant, any additional Shares that may be issued by our Company pursuant to any exercise of the Over-allotment Option, subject to adjustments as described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the several underwriters expected to enter into the International Underwriting Agreement to underwrite the International Offering
“International Underwriting Agreement”	the international underwriting agreement relating to the International Offering, which is expected to be entered into by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) and our Company, among others, on or about 11 December 2015, as further described in the section headed “Underwriting — International Offering” in this prospectus
“Joint Bookrunners” or “Joint Lead Managers”	Morgan Stanley Asia Limited and Haitong International Securities Company Limited (a corporation licensed to carry out Type 1 (dealing in securities), Type 3 (leveraged foreign exchange trading) and Type 4 (advising on securities) regulated activities within the meaning of the SFO), acting as the joint bookrunners and the joint lead managers to the Listing
“Jushi Group”	Jushi Group Co., Ltd. (巨石集團有限公司), a company with limited liability established in the PRC on 28 June 2001 and a wholly-owned subsidiary of China Jushi
“Latest Practicable Date”	30 November 2015, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 21 December 2015, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
“Lloyd’s Register”	a global engineering, technical and business services organisation
“Macau”	the Macau Special Administrative Region of the PRC

DEFINITIONS

“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部) or its competent local branches
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) or its competent local branches
“Non-competition Agreement”	the non-competition agreement entered into between Mr. Zhang Yuqiang and the Company on 2 December 2015
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at which the Offer Shares are to be subscribed for and issued, or purchased and sold pursuant to the Global Offering, to be determined as further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offering Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the representative of the International Underwriters on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to 37,500,000 additional new Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations in the International Offering (if any) as further described in the section headed “Structure of the Global Offering” in this prospectus
“PBOC”	People’s Bank of China (中國人民銀行)
“PRC,” “China” or the “People’s Republic of China”	the People’s Republic of China, excluding, for purposes of this prospectus, Hong Kong, Macau and Taiwan, unless otherwise specified
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective as at 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC Legal Adviser”	AllBright Law Offices (上海市錦天城律師事務所), our Group’s legal adviser as to PRC laws
“Price Determination Date”	the date, expected to be on or around 11 December 2015 but no later than 18 December 2015, on which the Offer Price is fixed for the purposes of the Global Offering
“prospectus”	this prospectus being issued in connection with the Hong Kong Public Offer

DEFINITIONS

“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group, the particulars of which are described in “Our History, Reorganisation and Corporate Structure — Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shares”	ordinary shares in the capital of our Company with a nominal value of US\$0.001 each
“Shareholder”	a holder of any Share(s)
“Sole Global Coordinator” or “Sole Sponsor”	Morgan Stanley Asia Limited (摩根士丹利亞洲有限公司), a licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO, acting as the sole global coordinator and the sole sponsor to the Listing
“Stabilising Manager” or “Representative”	Morgan Stanley & Co. International plc
“State”, “state” or “PRC government”	the government of China including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
“State Council”	State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers, as published by the SFC (as amended, supplemented or otherwise modified from time to time)

DEFINITIONS

“Track Record Period”	the financial period comprising the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States,” “U.S.” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“Zhenshi”	Zhenshi Holding Group Co., Ltd. (振石控股集團有限公司), a company with limited liability established in the PRC on 17 June 1989 (formerly known as Zhenshi Group Company Limited (振石集團股份有限公司) and before that as Zhejiang Tongxiang Hengshi Company Limited (浙江桐鄉恒石股份有限公司)), the issued share capital of which is (1) 70.28% owned by Mr. Zhang Yuqiang, a Director and one of our Controlling Shareholders, and (2) 25.23% indirectly owned by Mr. Zhang Jiankan, a Director
“Zhenshi Group”	Zhenshi and its subsidiaries
“Zhenshi US”	Zhenshi (US) International Trading Limited, a company incorporated in California in the US and formerly known as Hengshi Fiberglass (USA) Inc.
“Zhenshi Trademarks”	the trademark with the registration number 4633473 and the trademark with the registration number 7754498, the particulars of which are set out in the paragraph headed “2. Intellectual property rights of the Group — (a) Trademarks” in Appendix V “Statutory and General Information” to this prospectus
“%”	per cent.

The English names of the PRC nationals, enterprises, entities, departments, facilities, certificates, titles and the like are translations of their Chinese names and are included for identification purpose only. In the event of any inconsistency between the Chinese names and their English translations, the Chinese names shall prevail.

Unless expressly stated or the context requires otherwise, the terms “associate,” “close associate,” “connected person,” “core connected person,” “controlling shareholder,” “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the Listing Rules. Unless expressly stated or the context requires otherwise, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms and definitions used in this prospectus in connection with us and our business. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.

“blade”	the wind turbine component that drives the turbine rotor using wind energy
“E/PP”	expanded polypropylene, an eco-friendly plastic material
“gigawatt” or “GW”	a unit of power. 1 GW equals 1,000 MW
“megawatt” or “MW”	a unit of power. 1 MW equals 1.0 million watts
“modulus”	a measure of stiffness with respect to an object or substance’s resistance to becoming deformed when force is applied to it
“PTC Program”	production tax credit program, the main incentive scheme for the wind turbine blade sector in the United States
“root connection build-up”	a progressive thickening of the laminate approaching the root connection (as considered in the direction of blade tip to root)
“shear webs”	a structural element used to support the skins and to carry shear stresses across the structure
“skins”	the outer shell of the blade structure
“spar cap”	the primary load-carrying beam of the blade structure, normally configured as either single-shear web or two-shear web
“trailing-edge stiffener”	a secondary load-carrying beam placed near the trailing edge of the structure
“unit capacity”	the rated power of an individual wind turbine
“wind farm”	a power plant in which a group of wind turbines are installed to generate electricity from wind power

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary,” “Risk Factors,” “Future Plans and Use of Proceeds,” “Industry Overview,” “Business,” and “Financial Information.” These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under “Risk Factors,” which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our ability to execute our current expansion plans;
- our business and operating strategies and our future business development;
- our capital expenditure plan;
- the development plans for our existing and new businesses, products and services;
- our future business developments, results of operations, sales volume and financial condition;
- our expectations with respect to our ability to acquire and maintain regulatory qualifications and international, national and customer certificates required to operate our business;
- changes in competitive conditions and our ability to compete under these conditions;
- capital market development;
- changes in the political, economic, legal, operational and social conditions in the PRC and other countries relating to our business;
- changes in currency exchange rates; and
- other statements in this prospectus that are not historical fact.

The words “aim,” “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “seek,” “will,” “would” and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- the future competitive environment and general industry outlook for the global fiberglass and fiberglass fabrics industries and the industries in which fiberglass fabrics are used, in particular, the wind turbine blade sector;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other countries relating to our business and the rules, regulations and policies of the relevant government authorities relating to all aspects of our business;
- general economic, market and business conditions in the PRC and other countries relating to our business;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- the effects of competition within the industry that we operate and the industries in which our products are used;
- various business opportunities that we may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in section headed “Risk Factors” of this prospectus.

RISK FACTORS

Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR GROUP

We purchased all fiberglass used for the manufacture of our wind power related products and substantially all fiberglass used for the manufacture of our other products, directly or indirectly, from China Jushi, during the Track Record Period.

Fiberglass is the key raw material used in our production of fiberglass fabrics, accounting for 62.3%, 64.4%, 73.6% and 74.5% of our total cost of sales in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. During the Track Record Period, we purchased all fiberglass used for the manufacture of our wind power related products and substantially all fiberglass used for the manufacture of our other products, directly or indirectly, from China Jushi. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our aggregate purchases of raw materials from China Jushi and Zhenshi amounted to RMB257.3 million, RMB208.3 million, RMB395.4 million and RMB271.5 million, respectively, and accounted for 76.6%, 64.9%, 81.0% and 77.7% of our total cost of sales for the same periods, respectively. On 1 January 2015, we entered into a strategic cooperation agreement with Jushi Group with respect to our procurement of fiberglass in China from 2015 to 2017. For details, see “Business — Raw Materials, Packaging Materials and Suppliers — Purchases of Fiberglass from China Jushi.” If China Jushi fails to provide fiberglass to us in sufficient amounts or in a timely manner on favourable terms as a result of reasons which are beyond our control, we may have to purchase more fiberglass from third party suppliers and our cost position may be negatively affected. In particular, when we purchase fiberglass from third party suppliers, we may not necessarily be able to enjoy transportation and packaging cost advantages as when we purchase from China Jushi, as China Jushi’s production facilities are located in close proximity to our production facilities. For a detailed analysis on the fluctuation in the costs of fiberglass and its impact on our profit, see “Financial Information — Description of Principal Consolidated Statements of Comprehensive Income Items — Cost of Sales.” In addition, as fiberglass is the base material to manufacture fiberglass fabrics, substantially all of our customers in the wind turbine blade sector extend their certification process to fiberglass suppliers as well. The certification process of a fiberglass supplier by these customers typically takes three to six months. Although we have been taking steps to identify alternative third party suppliers for fiberglass, if our business relationship with China Jushi is terminated or negatively impacted in any way, we cannot assure you that we can secure alternative supply sources for similar high quality fiberglass with certifications from our major customers in a sufficient, timely and cost-effective manner, or at all.

In addition, we are currently constructing production facilities in Egypt and, subject to market conditions and the plan of China Jushi to construct fiberglass production facilities in the United States, we plan to construct production facilities in the United States in the future. We strategically selected Egypt and the United States to expand our production capacity overseas in order to capture the cost synergy arising from our fiberglass procurement from China Jushi, which has fiberglass production facilities in Egypt and has a preliminary plan to construct production facilities in the United States. With respect to the production at our overseas facilities, we intend to procure fiberglass from the nearby facilities of China Jushi. According to our strategic cooperation agreement with Jushi Group, Jushi Group will supply fiberglass to our Group or other companies designated by us on a priority basis. However, there is no assurance that the relevant overseas facilities of China Jushi will be able to increase their production capacities to a sufficient level and in a timely enough manner to support our current demand or future growth. If China Jushi fails to provide fiberglass to us according to such strategic cooperation agreement, we may not be able to purchase fiberglass of a similar or comparable quality from the relevant local market in a timely and cost-effective manner or at all, and our production levels and profitability may be materially and adversely affected. Moreover, our actual demand for fiberglass in overseas markets may exceed the purchase volume to be agreed pursuant to the relevant purchase agreements we currently have with Jushi Group or may enter into with China Jushi or Jushi Group in the future. These factors may constrain our production, materially and adversely affect our ability to achieve our expansion plans and reduce our sales or gross margins.

RISK FACTORS

Our results of operations depend on the conditions of the industries in which our customers operate, especially the wind turbine blade sector.

A majority of our products are used in wind turbine blades, and therefore our business may be affected, directly and indirectly, by changes in supply and demand within the wind turbine blade sector. Our plan to increase our production capacity, especially for fiberglass fabrics used in wind turbine blades, is heavily based on our anticipation of the growth in demand for our customers' products, which is in turn driven by newly installed capacity in the global wind turbine blade sector. If the growth in the global newly installed wind power capacity does not match our expectations, demand for our products may in turn be lower than anticipated and the utilisation rate of our production facilities may be adversely affected. For example, our revenue decreased by 8.1% from RMB441.0 million in 2012 to RMB405.4 million in 2013, primarily due to a slowdown in the demand from our customers in the global wind turbine blade sector, which was principally driven by the low levels of newly installed capacity in the United States in 2013 resulting from changes in the qualification requirements of the PTC program, which was renewed in January 2013. The demand for fiberglass fabrics in wind turbine blades is expected to slightly slow down in 2016 and 2017, primarily due to a slowdown in the estimated newly-installed wind power capacity as a result of (i) regulatory and political uncertainties in Europe, (ii) expiration of the PTC program for wind power projects after the end of 2014 in the United States; and (iii) reduced feed-in tariffs in China applied to onshore wind farms authorised after 1 January 2015 or authorised before 1 January 2015 but connected to the grid after 1 January 2016. In addition, the wind turbine blade sector is characterised by rapid technological change, changing and increasingly sophisticated customer demands and evolving industry standards and laws and regulations. As such, we expect competition in the industry in which we operate to continue to be intense and consolidations to become more frequent in the future. Any events that have an adverse effect on the demand for wind power generally, such as changes in regulatory incentives or technology, or that have an adverse effect on the demand for our customers' products specifically, could materially and adversely affect the utilisation rate of our production facilities and therefore our profit margin, results of operations and business prospects.

In addition, the investment plans of our customers in the wind turbine blade sector may be impacted by changes in government initiatives and policies and international arrangements aimed at global environmental protection, which in turn may be affected by various factors such as changes in the political landscape, political commitments to reduction in carbon emissions and the interactions between political, economic and social dimensions regarding the wind turbine blade sector in the United States, the PRC and other key markets. For details of the associated risks, see “— Risks Relating to Industries Relevant to Our Business — If any uncertainties or adverse changes in government investments, initiatives and policies affect the wind turbine blade sector or other industries in which our customers operate, preventing such industry from sustaining its current pace of growth, our growth, profitability and future prospects could be materially and adversely affected.” Moreover, due to current limits in technology, there is no assurance that wind power will be considered a viable long-term substitute for conventional energy sources such as fossil fuel-generated power or more reliable energy sources such as solar power. There is a risk that other, more reliable or more cost-competitive alternatives may reduce the popularity of wind power as a source of energy. Developments or innovations relating to other energy sources, such as recently announced advancements in devices for storing solar energy, may adversely affect the future growth prospects of the wind turbine blade sector in general, which in turn will materially and adversely affect the demand for our products. Furthermore, the growth of the wind turbine blade sector is also dependent upon public perception regarding such industry. Any reduction in the level of acceptance of wind power as a viable form of renewable energy by the general public and support by the government agencies that establish energy policies in the markets in which our customers operate, such as the direct or indirect reduction or termination of preferential government treatments, would have a significant effect on our customers in the wind turbine blade sector. Similarly, if there are any adverse changes to public sentiment or government policies in any other industries in which our customers operate or in any countries to which we plan to expand, our business, results of operations and prospects could be materially and adversely affected.

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Our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may materially and adversely affect our results of operations.

We currently derive a substantial portion of our revenue from a limited number of customers, which are primarily major manufacturers of wind turbines and blades worldwide and in China. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our top five customers accounted for 76.9%, 75.8%, 64.5% and 65.8% of our total revenue, respectively, and our largest customer accounted for 33.7%, 26.7%, 20.3% and 17.8% of our total revenue, respectively.

As there are only a limited number of major manufacturers of wind turbines and blades worldwide and in China, our potential customer base is relatively concentrated. We cannot assure you that we will always be selected by the major manufacturers of wind turbines and blades in international markets and China as their supplier, or to supply products to these customers at current levels, or at all. If we lose any key customers due to our failure to offer a competitive price or other factors outside of our control, our results of operations may be adversely affected. In addition, since many of our customers are major international or PRC-based manufacturers who have a stronger market position than we do, we may have limited bargaining power when negotiating with them. We may offer longer credit periods or concede to certain requests made by certain customers in order to maintain good relations with them. For example, we typically offer a credit period of 30 to 90 days to our customers, which may be extended to more than 90 days on a case-by-case basis. In particular, a large proportion of PRC customers in our customer portfolio, who are accustomed to longer credit periods and using bank accepted bills, may subject us to increased liquidity risks. As a further example, a major overseas customer returned a batch of our products to us in December 2012 due to its change of blade specifications after our products had been manufactured. In order to maintain good relations with such customer, we accepted the return of such products without any charge to the customer and bore the transportation and customs clearance expenses arising from the product return, and the customer subsequently became our largest customer in 2014. The original purchase price of the returned products was approximately RMB13.6 million. We have been re-selling this batch of returned products to customers in other industries since December 2012 and expect to finish re-selling the returned products by the end of 2016.

Furthermore, except for the entry into of long-term cooperation agreements with certain customers, we normally do not have long-term purchase commitments from our customers, and a large portion of our sales are made on the basis of individual purchase orders under annual sales contracts with our customers. We cannot assure you that any of our customers will place purchase orders with us in the future, or that the volume or price of our customers' purchase orders will be consistent with past orders or with our future expectations. As a result, our results of operations may vary significantly from period to period, and the contracted volume and selling prices of our products are subject to fluctuation and uncertainty upon the renewal of the relevant contracts.

Any one of the following events, among others, may cause material fluctuations or declines in our revenue and have a material adverse effect on our prospects, results of operations and financial condition:

- reduction in the volume or price of products purchased from us by one or more of our major customers;
- delay or cancellation of procurements by our customers due to the change in their business plans;
- the decision by one or more of our major customers to select one or more of our competitors to supply fiberglass fabrics;
- the loss of one or more of our major customers and our failure to identify and obtain additional customers that can replace the lost sales volume at satisfactory pricing or upon similar other terms; or
- the failure or inability of any of our major customers to make timely payment for our products and services.

Any disruption in our business relationship with, or reduction or cessation of orders from, any of our major customers will adversely affect our sales and profitability. We cannot assure you that we will maintain

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relationships with our major customers or that these customers will continue to generate significant revenue for us in the future. In addition, we cannot assure you that we will be able to find new customers to make up for any reduction in demand from, or the loss of, existing major customers or that we will be successful in finding new customers for our expanded production capabilities in the future. Any failure to maintain our existing customer relationships or to expand our customer base will materially and adversely affect our results of operations.

Our ability to enhance production capabilities in both China and overseas is subject to risks and uncertainties.

Our future success in part depends on our ability to enhance our production capabilities, which includes increasing our production utilisation rate, improving our production efficiency, acquiring and upgrading manufacturing or testing equipment and production facilities and modifying our existing production processes. In order to achieve the desired level of economies of scale and to deliver a larger amount of high quality products at a competitive cost level, we are required to continue to expand our existing production capacity. We have completed our Hengshi Phase III Expansion Plan and Egypt Phase I Expansion Plan to expand production capacity in 2015. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We intend to further expand our production capacity in 2016 and 2017 by carrying out our Hengshi Phase IV Expansion Plan and Egypt Phase II Expansion Plan. Under these expansion plans, our estimated annualised new addition of production capacity in 2015, 2016 and 2017 is 39,953 tonnes, 39,603 tonnes and 17,693 tonnes, respectively. We also have a preliminary plan to build production facilities in the United States. For details, see “Business — Production — Future Expansion Plans” and “Future Plans and Use of Proceeds.”

Our expansion plans and business growth require substantial capital expenditure and dedicated management attention. We funded our Hengshi Phase III Expansion Plan by using capital injection by our shareholders, cash generated from our operations and bank loans, and Egypt Phase I Expansion Plan by capital injection from the shareholders of our subsidiary in Egypt and loans from Hengshi Fiberglass. We intend to fund our Hengshi Phase IV Expansion Plan by using a portion of the net proceeds from the Global Offering and cash generated from our operations and our Egypt Phase II Expansion Plan by cash generated from our operations. Nevertheless, we may require additional financing to achieve our future expansion plans. There can be no assurance that we will be able to obtain any necessary additional financing in time, on reasonable terms or at all, due to various factors such as the general market conditions for financing activities by fiberglass fabrics companies, the prevailing economic and political conditions and our future financial position. If we are unable to finance our expansion plans, for example, we may not be able to expand our production capacity or enhance our production capabilities to satisfy customer demand, our growth prospects would be limited.

In addition, we also cannot assure you that our expansion plans will be implemented successfully according to schedule, within budget or at all, or that they will result in the anticipated benefits. The construction and installation of our new production facilities may not be completed within the time frame or at the cost levels we originally anticipated and, as a result, we may not be able to implement our future expansion plans.

Furthermore, our ability and efforts to enhance our production capabilities are subject to other significant risks and uncertainties, including but not limited to:

- unexpected delays and cost overruns resulting from a number of factors, many of which may be beyond our control, including delays in completing our customer’s product certification process, increases in the prices of raw materials and utilities, shortages of skilled employees, increases in labour costs, transportation constraints, disputes with customers or raw material suppliers as well as equipment malfunctions;
- our ability to obtain and maintain the required permits, licenses and approvals from the relevant government authorities;

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- availability of the necessary technology or equipment from third parties or our internal research and development department;
- limited management attention and other resources; and
- interruptions caused by natural disasters or other unforeseen events.

Furthermore, our efforts to enhance our production capabilities may not achieve the expected benefits. In particular, the utilisation rate of our production facilities historically affected our gross profit margin. For example, our gross profit margin increased from 20.8% in 2013 to 28.1% in 2014, primarily due to a decrease in our unit cost of depreciation, which was principally driven by a higher utilisation rate we achieved in 2014. If we do not achieve expected utilisation rates in our new production facilities in China and Egypt, our results of operation and financial condition may be materially and adversely affected. For a sensitivity analysis of the impact to our results of operation during the Track Record Period from the fluctuation in our utilisation rate, see “Financial Information — Description of Principal Consolidated Statements of Comprehensive Income Items — Gross Profit.” We cannot assure you that the demand for our products will continue to increase or remain at the current levels, as such demand is affected by various factors beyond our control, including the market conditions in the industries in which our customers operate and general economic conditions. If the demand for our products is weaker than anticipated, we may experience problems associated with overcapacity and under-utilisation of headcounts and other resources, which may have a material adverse effect on our business, results of operations and financial condition. In order to enhance our production capabilities and maintain our competitiveness in the market, we spent a relatively large amount of capital in purchasing manufacturing and testing equipment and machinery in the past and will also use part of the proceeds from the Global Offering to purchase manufacturing and testing equipment and machinery after the Listing. The expected depreciation for the equipment and machinery of our Company in connection with Hengshi Phase III Expansion Plan in 2015 is approximately RMB12.2 million. Depending on the nature and usage of the equipment and machinery, the amount of depreciation charges of such equipment and machinery may lead to an increase in our cost of sales and affect our profitability.

We are subject to risks associated with our international businesses and operations, including risks associated with our business and operations in Egypt and anti-dumping duties that may be imposed on our products.

In 2014, our fiberglass fabrics were sold to customers in 18 countries and Hong Kong and Taiwan. In 2012, 2013 and 2014, we derived a majority of our revenue from international sales. In 2012, 2013 and 2014, our revenue generated from overseas sales amounted to RMB308.0 million, RMB278.9 million and RMB412.6 million, respectively, representing 69.8%, 68.8% and 60.8% of our revenue for the same periods, respectively. In the six months ended 30 June 2014 and 2015, our revenue generated from overseas sales amounted to RMB207.2 million and RMB237.0 million, respectively, representing 70.8% and 47.4% of our revenue for the same period. The decrease of our overseas sales for the six months ended 30 June 2015 as a percentage of our total sales as compared to the same period of 2014 was primarily due to the increase of our sales in the PRC in the six months ended 30 June 2015. Such increase was primarily due to the fact that the reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or those authorised before 1 January 2015 but connected to the grid after 1 January 2016. As a result of such policy change, we believe many of our customers with onshore wind farms authorised before 1 January 2015 will increase or have increased the pace of construction of their wind farms so that they can take advantage of the existing feed-in tariffs by connecting to grid before 1 January 2016. We expect the onshore wind farm construction activities in the PRC to slow down after 1 January 2016. We are in the process of constructing new production facilities in Egypt, and we plan to build production facilities in the United States. For details, see “Business — Production — Future Expansion Plans.” We expect that we will continue to generate a significant portion of our revenue and profits from our sales of products in overseas markets, especially in Europe and the United States, in the foreseeable future, as a result of which we are exposed to various risks associated with conducting business in foreign countries and regions, including but not limited to:

- compliance with foreign laws, regulatory requirements and local industry standards, in particular, those related to the sale of fiberglass fabric products;

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- exposure to litigation risks outside China;
- political and economic instabilities;
- high barriers to entry in certain developed foreign markets;
- foreign exchange rate exposure;
- unfamiliarity with local operating and market conditions;
- cultural and language difficulties;
- trade restrictions, tariff, anti-dumping duties, technology barriers, protectionist measures and economic sanctions;
- competition from other international large-scale fiberglass fabric manufacturing companies or strong domestic or regional players in markets where we operate;
- unknown or unfair local practices on contract bidding and payments;
- stringent environment, safety and labour standards; and
- managing relationships with and collecting payments from foreign customers.

In particular, we have completed our Egypt Phase I Expansion Plan to construct production facilities in Suez, Egypt, and intend to further expand our production capacity in Egypt in 2016. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We also set up a subsidiary in Egypt in December 2014 in connection with our expansion plans in Egypt. Upon the completion of our expansion plans in Egypt in 2016, our annual designed production capacity in Egypt is estimated to be 20,472 tonnes. For details, see “Business — Production — Future Expansion Plans — Production Capacity Expansion in Egypt.” As a result, we are exposed to various risks associated with conducting business in Egypt, including but not limited to the uncertainties in relation to the political and legal systems and business environment of Egypt. The Egyptian political landscape and legal system have changed since an uprising in Egypt in 2011. Since 2014, a new constitution has come into effect, and the government of Egypt has carried out reforms in areas such as taxation, energy policies, trade and investment, of which the effects remain uncertain. In light of the recent delay in the parliamentary elections, the Egyptian political and legal systems are subject to further changes. For a summary of relevant Egyptian laws, see “Regulations — Summary of Egyptian Laws.” There are also uncertainties in the business environment in Egypt. For example, power outage, labour strikes and corruption are not uncommon in Egypt. If any of the uncertainties in relation to the political and legal systems and business environment of Egypt materialise, our business and operations in Egypt may be materially and adversely affected.

In addition, in March 2011, the EU introduced asset freezing measures against assets owned or controlled by persons, entities and bodies designated as being responsible for the misappropriation of Egyptian state funds or corruption (the “Egyptian Sanctions Regime”).

We undertake to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Egyptian individual or entity sanctioned by the Egyptian Sanctions Regime. In addition, we have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become a target of the Egyptian Sanctions Regime. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Egypt or with Egyptian individuals or entities sanctioned by the Egyptian Sanctions Regime would put our Group or our Shareholders and investors at risk of being sanctioned by the competent authority of an EU member state, and in our annual reports or interim reports our

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efforts on monitoring our business exposure to sanctions risk, the status of future business in Egypt and with Egyptian individuals or entities sanctioned by the competent authority of an EU member state and our business intention relating to Egypt and with Egyptian individuals or entities sanctioned by the competent authority of an EU member state. If we breach any of these undertakings to the Stock Exchange after the Listing, it is possible that the Stock Exchange may delist our Shares.

We cannot predict the interpretation or implementation of government policy at the EU and other applicable jurisdictions with respect to any current or future activities by us or our affiliates. We have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees, or our Shareholders or investors to violate or become a target of the Egyptian Sanctions Regime. However, we can provide no assurances that our future business will be free of risk under sanctions implemented in these jurisdictions or that we will conform our business to the expectations and requirements of the EU authorities or the authorities of any other government that do not have jurisdiction over our business but nevertheless assert the right to impose sanctions on an extraterritorial basis. Our business and reputation could be adversely affected if the government of the U.S., the EU, the United Nations or any other governmental entity were to determine that any of our activities constitutes a violation of the sanctions they impose or provides a basis for a sanctions designation of our Company. In addition, because many sanctions programmes are evolving, new requirements or restrictions could come into effect which might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions, or being sanctionable.

In addition, our results of operations may be affected by changes in international trade regulations and policies. For example, the European Union initiated an anti-dumping investigation in 2011 on fiberglass fabrics imported from China. Considering the potential impact on our sales to European countries, we voluntarily participated in such investigation, which was withdrawn by the European Union in 2012. Save for such withdrawn investigation, we were not subject to, nor were we aware of, any other anti-dumping investigation related to fiberglass fabrics imported from China during the Track Record Period. No anti-dumping duties have been imposed on our products up to the Latest Practicable Date. However, we cannot assure you that there will not be similar investigations in the future. Once an anti-dumping investigation is initiated, the process is normally time-consuming. If we participate in such investigation, whether voluntarily or involuntarily, we may need to devote substantial resources, which may adversely affect our normal business operations. If anti-dumping duties are imposed against fiberglass fabrics exported by us from China to certain countries or regions, the effective purchase price of our products payable by the relevant overseas customers may increase, which may result in a decrease in their purchases of fiberglass fabrics from our PRC-based subsidiary.

Any of the foregoing and related risks and uncertainties could materially and adversely affect our international operations and result in reduced revenue from our international operations and sales, which in turn could materially and adversely affect our business, results of operations and financial condition.

The growth of our revenue in the six months ended 30 June 2015 as compared to the same period of 2014 was primarily due to the growth of our revenue derived from the PRC market as a result of a policy change on feed-in tariffs in China, therefore, such growth rate may not be sustainable in future.

We achieved an overall significant growth in revenue during the Track Record Period. Our revenue was RMB441.0 million, RMB405.4 million and RMB678.6 million in 2012, 2013 and 2014, respectively, representing a CAGR of 24.1% from 2012 to 2014. Our revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015. The increase in our revenue in the six months ended 30 June 2015 over the same period in 2014 was primarily due to the increase of our revenues derived from the PRC market of RMB177.6 million, or 207.5%, from RMB85.6 million in the six months ended 30 June 2014 to RMB263.2 million in the six months ended 30 June 2015. Such increase was primarily due to the fact that the reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or those authorised before 1 January 2015 but connected to the grid after 1 January 2016. As a result of such policy change, we believe many of our customers with onshore wind farms project authorised before 1 January 2015 will increase or have increased the pace of construction of their wind farms so that they can take advantage of the existing feed-in tariffs by connecting to the grid before 1 January 2016.

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We expect the onshore wind farm construction activities in the PRC to slow down after 1 January 2016. As a result, the growth rate of our revenue in the six months ended 30 June 2015 as compared to the same period of 2014 may not be sustainable in future.

Our historical profit before tax may not be indicative of our future results of operations.

We received aggregate interest payments of RMB11.4 million, RMB23.3 million, RMB16.6 million, RMB9.8 million and RMB2.9 million arising from non-compliant inter-company advances in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, and gain on release of financial guarantee contracts of RMB34.9 million, RMB47.6 million, RMB38.2 million, RMB15.8 million and RMB65.3 million relating to the release of guarantees we provided to banks in respect of bank facilities granted to our related parties and a shareholder in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively. These interest payments and gain on release of financial guarantee contracts are non-recurring as we do not intend to make non-compliant inter-company loans or provide guarantees for our related parties and Shareholders in the future. Our profit before tax was RMB77.5 million, RMB83.5 million, RMB147.5 million, RMB39.0 million and RMB142.8 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 17.6%, 20.6%, 21.7%, 13.3% and 28.5% of our revenue during the same periods, respectively. Excluding the impact of the interest payments arising from non-compliant inter-company advances and the gain on release of financial guarantee contracts, our adjusted profit before tax would have been RMB31.1 million, RMB12.6 million, RMB92.7 million, RMB13.3 million and RMB74.6 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 7.1%, 3.1%, 13.7%, 4.6% and 14.9% of our revenue during the same periods, respectively. As such, our historical profit before tax may not be indicative of our future results of operations.

Our failure to obtain or maintain product certifications may negatively affect the sales of our fiberglass fabrics.

We have obtained a number of certifications for our products, including customer certification by manufacturers of wind turbines or blades and international certificates issued by renowned international certification bodies, such as DNV GL. For details, see “Business — Certifications and Performance Tests.”

We believe that these certifications for our products enhance the credibility of our products and our brand reputation, and in general, manufacturers of wind turbines and blades only procure certified fiberglass fabrics from their own certified suppliers. However, we may experience unanticipated delays in securing necessary certifications, which may prevent us from attracting new customers or maintaining existing customers. We may also fail to maintain the quality of our products after we obtain the certification, which may impair our established reputation with our major customers, resulting in reduced purchase volumes from them or loss of such customers altogether. As a result, any delay in obtaining or failure to maintain the certifications for our products in the future may cause us to lose revenue or even customers and materially and adversely affect our results of operations.

We may not be able to continually enhance our product portfolio and offer high quality new products and/or services, which will adversely affect our ability to achieve our expansion plans.

Our growth and future success depend on our ability to maintain and expand our customer base by enhancing our product portfolio and market position. Our ability to successfully attract and retain customers largely depends on, among others, our ability to anticipate and effectively respond to changing customers' demands and preferences, identify and adopt evolving technologies and develop and upgrade our products and services that cater to the needs of our potential and existing customers. In particular, certain wind turbine blade manufacturers have been using carbon fiber for their wind turbine blades in recent years. Carbon fiber enables stiff and lightweight wind turbine blades. If the percentage of wind turbine blades using carbon fiber continues to increase, our business, results of operation and financial condition may be materially and adversely affected. We intend to continue focusing on the development of fiberglass fabrics used in the wind turbine blade sector and plan to devote more resources to enhance the technical specifications of our fiberglass fabrics for use in wind turbines with a unit capacity of 5.0 MW or above. Our current product pipeline also includes basalt fiber fabrics

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(玄武岩纖維織物)。For details, see “Business — Our Products — Our Product Pipeline.” We cannot guarantee that our future products will be able to continue gaining market acceptance, achieving technological feasibility or meeting prescribed industrial standards, in which case, our ability to expand our customer base and maintain our leading market position could be adversely affected.

In addition, developing new production techniques and new products through research and development is time-consuming and costly, but our research and development efforts may not be successful and the anticipated return on such investment is not guaranteed.

Even if our research and development efforts are successful, we may not be able to apply newly developed technologies to produce or upgrade products that will be well accepted by the market, or we may not be able to apply them in a sufficient, timely and cost-effective manner to take advantage of opportunities in the market. Furthermore, the success of our new products depends on a number of factors, some of which are beyond our control, such as prevailing economic conditions, the inherent uncertainty in market demand forecast, our competitors’ ability to replicate or improve on the technology or products we develop or the compatibility of such new products with existing technology, which in turn may have a material adverse impact on our business, results of operations and financial condition.

We may need additional capital but may not be able to obtain it in a timely manner and on favourable terms or at all.

Our operations and further growth need additional capital from time to time. As at 31 December 2012, 2013 and 2014 and 30 June 2015, we had outstanding bank borrowings of RMB441.5 million, RMB511.8 million, RMB420.3 million and RMB436.1 million, respectively. Our gearing ratio as at 31 December 2012, 2013 and 2014 and 30 June 2015 was 167.1%, 160.2%, 104.6% and 110.3%, respectively. As at 30 June 2015, we had bank loan facilities of RMB633.0 million, of which RMB227.0 million remained unutilised. We may require additional cash resources due to future growth and development of our business. If our cash resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain new or expanded bank loan facilities. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including our future results of operations, financial condition, cash flows and the liquidity of international capital and lending markets. In addition, our existing loan agreements contain financial covenants that may restrict our ability to incur additional indebtedness. Any indebtedness that we may incur in the future may also contain operating and financing covenants that could further restrict our operations. There can be no assurance that financing will be available in a timely manner or in amounts or on terms acceptable to us, or at all. Any failure to raise needed funds on terms favourable to us, or at all, could severely restrict our liquidity, as well as have a material adverse effect on our business, results of operations and financial condition.

We recorded net cash used in operating activities in 2013. If we are unable to meet our payment obligations, our business, results of operations and financial condition may be materially and adversely affected.

We recorded net cash used in operating activities of RMB35.9 million in 2013 due to a number of factors, including (i) a decrease in bills payables, primarily relating to our use of bills to purchase fiberglass directly from China Jushi in 2012, whereas we purchased fiberglass from Zhenshi from February to December 2013 under Zhenshi’s centralised procurement policy and primarily settled the purchase amounts by cash if we did not settle the relevant purchase price by using bills received from our customers, (ii) an increase in amounts due from related parties, primarily reflecting our increased sales to a customer in Hong Kong, which is a related party and a trading company, and (iii) an increase in bills receivables, primarily because we received a bank accepted bill of a relatively large amount from a customer in December 2013 and recorded a higher amount of bills receivables as at 31 December 2013. For details, see “Financial Information — Liquidity and Capital Resources — Cash Flows.” We cannot assure you that we will not experience negative net operating cash flow in the future. Negative net operating cash flow requires us to obtain sufficient external financing to meet our financial needs and obligations. If we are unable to do so, we will be in default of our payment obligations and may not be able to implement our business strategies as planned, and our business, results of operations and financial condition may be materially and adversely affected.

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Our indicative sales volume may differ from the actual sales volume to be delivered under the relevant sales contracts.

Based on agreements we had entered into with our customers as at the Latest Practicable Date, our indicative sales volume to be delivered between 1 January 2015 and 31 December 2015 is currently expected to be approximately 93,009 tonnes. Such indicative sales volume is calculated on the assumption that the relevant sales contracts are performed in full in accordance with their respective terms. The termination or modification of any one or more major contracts may have a substantial and immediate effect on our indicative sales volume and in turn, on our future results of operations.

During the Track Record Period, the indicative sales volumes set forth in our sales contracts were generally in line with the actual sales volumes generated from the relevant contracts. However, we cannot guarantee that our indicative sales volume will always be realised in full, in a timely manner, or at all, or that, even if they are realised, such indicative sales volume will result in profits as expected. As a result, you should not rely on our indicative sales volume information presented in this prospectus as an indicator of our future earnings.

We are exposed to potential product liability claims and product returns, and we may be unable to obtain sufficient compensation from suppliers for defective raw materials used in our products.

We are exposed to potential product liability claims and product returns. Although we have implemented stringent quality control measures, including significant investments in production techniques, testing equipment and human resources, we cannot assure you that there will not be any defect in our products, that our products do not malfunction or that our products will not fail to meet our customers' specifications. We typically offer a one-year warranty to our customers, during which period if the technical parameters of our products materially and negatively change under appropriate storage conditions, we would be responsible for replacing the relevant products with new ones. In some of our annual sales contracts, we have agreed to repair, replace or accept return of products at our cost during a warranty period of up to two years if our products do not meet the pre-agreed quality standards. In addition, in sales contracts with one of our customers, we agreed that, for a period of up to 20 years, if the wind turbines manufactured by the relevant customer using products provided by us cannot meet its safety or other functionality requirements as a result of the design, material or manufacturing technologies of our products, we will repair or replace the relevant fiberglass fabrics at our cost. In general, we could be required to replace or accept the return of the defective products at our own cost and compensate our customers for losses or damages caused by our defective products. Any return of our products would reduce our sales and increase our inventory. In particular, as substantially all of our products are customised to customers' specifications, if our products are returned from our customers, we may face difficulties in reselling such products to our other customers, or we may be required to sell such inventory at a price lower than our original intended selling price. Moreover, we may also have to spend a certain amount of resources to defend ourselves in the event where claims or legal proceedings are instituted against us, and our reputation and brand may be materially and adversely affected as a result. During the Track Record Period, we accepted the return of a batch of products from a major customer due to factors out of our control. For details, see "Business — Customers, Sales and Marketing — Customer Services — Products Return."

In addition, the quality of our final products is highly dependent on the quality of the raw materials we purchase from third parties. In the event that we become subject to product liability or warranty claims as a result of the defective raw materials from third-party suppliers, we may not be able to seek compensation from the relevant suppliers to cover lost profits and indirect or consequential losses we incur. If no claim can be asserted against a supplier, or if any amount that we claim cannot be recovered from the relevant supplier, we may be required to bear the losses related to such customer claims or replace the products at our own cost and expenses, and our reputation, business, results of operations and financial condition could be materially and adversely affected.

During the Track Record Period, we did not encounter any material product liability claim against us, nor did we experience any material loss or product recall in relation to product quality issues. As at the Latest Practicable Date, we did not purchase any liability insurance for our products as it is neither an industry requirement nor general practice to do so. Any successful product liability claim against us in the future could have a material adverse effect on our business, prospects, results of operations and financial condition.

RISK FACTORS

We are subject to foreign exchange rate risks and our risk management measures may not be effective.

We conduct our business both in China and overseas and report our results of operations in Renminbi. Our revenues from overseas, which accounted for 69.8%, 68.8%, 60.8% and 47.4%, respectively, of our total revenue in 2012, 2013 and 2014 and the six months ended 30 June 2015, were typically denominated in U.S. dollars, while we purchased all of our raw materials in Renminbi from suppliers in China. In addition, we also purchased a substantial portion of our machines and equipment from overseas markets in Euros. We are in the process of constructing production facilities in Egypt and may further expand production capacities overseas with the aim of gradually meeting substantially all of the demand from our overseas customers with our overseas production facilities, subject to the prevailing market conditions. However, such expansion plan may not succeed, and our revenue and expenses for our overseas operations are subject to the risks of continued fluctuations in the exchange rates between Renminbi and the relevant foreign currencies, which may have a material adverse effect on our business, results of operations and financial condition.

During the Track Record Period, we entered into foreign currency forward contracts with reputable commercial banks in China to lower our foreign exchange rate risks. Under such foreign currency forward contracts, we agreed with banks pre-agreed fixed exchange rates to lock down the RMB-equivalent sales amount to be received by us. However, any depreciation of the Renminbi against the Euro or the U.S. dollar after the lock-down of the exchange rate would cause us to receive a lower sales amount in Renminbi than we would have received had we not entered into such foreign currency forward contracts. In addition, the foreign currency forward contracts used by us may not completely and directly correspond to the risks from which we intend to protect ourselves. The prices of such contracts may be adjusted based on changes in their fair value in accordance with applicable accounting standards from time to time, which may cause us to incur losses. Furthermore, the cost of such foreign currency forward contracts may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. We recorded a gain on financial instruments at fair value through profit or loss (“FVTPL”), of RMB5.8 million in 2013, primarily due to the appreciation of the Renminbi against the U.S. dollar at the year end of 2013, whereas we recorded a loss on financial instruments at FVTPL of RMB17.2 million in 2014, primarily due to the depreciation of the Renminbi against the U.S. dollar at the year end of 2014. We recorded a gain on financial instruments at FVTPL of RMB7.5 million in the six months ended 30 June 2015, primarily due to the appreciation of Renminbi against other currencies in the first six months of 2015. Any substantial fluctuation in the market may render foreign currency forward contracts not commercially meaningful or commensurate with their transaction costs, which could, in turn, increase our corresponding financial risks, and may materially and adversely affect our business, results of operations and financial condition.

The gross profit margin of our products may be adversely affected by increases in the cost of fiberglass.

Fiberglass is the key raw material used in our production of fiberglass fabrics. During the Track Record Period, our unit purchase price of regular fiberglass remained relatively stable with a slight decrease, which was in line with the market price. During the Track Record Period, we typically entered into annual agreements with our supplier of fiberglass at around the same time as we entered into annual agreements with most of our customers for the purchase of our products, and therefore we were normally able to substantially lock in the unit cost of fiberglass in order to deliver products under our sales contracts with customers. For details, see “Business — Raw Materials, Packaging Materials and Suppliers — Raw Materials and Packaging Materials.” However, to the extent that we are not able to substantially lock in such unit cost or if our anticipated unit cost for completing a purchase order is not accurate, price fluctuations in fiberglass may cause our actual costs to differ from our original estimates, and any cost overrun can result in a lower-than-expected profit on a purchase order. The price of fiberglass fluctuates due to various factors, many of which may be beyond our control, such as any undersupply due to a limited number of qualified fiberglass suppliers to the wind turbine blade sector, overall economic conditions or the uncertainty in market demand. We may not be able to transfer some or all of the increases in cost of fiberglass to our customers. As a result, any increase or material fluctuation in the prices of fiberglass could have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS

We may not be able to protect our patents and non-patented intellectual property rights, and we may be subject to claims for the infringement of intellectual property rights of others.

Our success depends in part on our ability to obtain and maintain trade secrets, patents and other intellectual property protection for our products, technologies, designs and know-how, as well as our ability to successfully protect our intellectual properties and to defend ourselves against third-party challenges. As at 30 June 2015, we had obtained 43 patents in the PRC and were in the process of applying for registration of 14 additional patents in the PRC. Our patents are principally related to the technology, process, improvement and design of our products. In addition, as at 30 June 2015, we had four registered trademarks in the PRC. We cannot assure you that the measures we currently adopt are adequate to efficiently protect our patents or non-patented intellectual property rights or to prevent any unauthorised use of our intellectual property by third parties. On the other hand, the existence of any particular intellectual property right may not necessarily protect us from competition, as it may be challenged, invalidated or held to be unenforceable. Competitors may successfully challenge our patents, produce similar products that do not infringe our patents or produce products in countries that do not recognise our patents. Our patent priority may be defeated by third-party patents issued on a later date but applied for earlier than ours. Additionally, the existence of a patent does not provide assurance that the manufacture, sale or use of our products does not infringe upon the rights of others. Third parties may also have blocking patents that might be used to prevent us from marketing our own products or utilising our technologies or processes, regardless of whether they are patented. As it may take years for patent applications to be approved, there may be pending applications, known or unknown to us, that may later result in issued patents upon which we may be deemed to infringe. Moreover, we are exposed to possible claims by third parties seeking to enforce intellectual property rights against us or the products we manufacture. Therefore, we may initiate lawsuits in order to defend our ownership or proprietary design of our products and trade secrets, or we may be subject to litigation brought by third parties based on claims that we have infringed upon their intellectual property rights or our products are or contain items which infringe their intellectual property rights, or that we have misappropriated the trade secrets of others, either of which scenarios will be time-consuming and costly to defend. We cannot assure you that we can achieve a favourable outcome in any such litigation. If we are unable to protect our patents, trademarks and other intellectual property rights or to successfully defend ourselves from infringement claims, our reputation, business, results of operations and financial condition may be materially and adversely affected.

The legal proceedings jointly initiated by China Jushi and us against an overseas fiberglass manufacturer in Spain are subject to uncertainties.

On 15 May 2015, China Jushi and we jointly initiated legal proceedings in Spain against an overseas fiberglass manufacturer (the “**defendant**”) to seek an order that (i) the defendant’s patent on one particular type of fiberglass is invalid in Spain, and (ii) even if such patent is valid the particular type of fiberglass manufactured by China Jushi does not infringe such patent of the defendant. We participated in such legal proceedings because we sourced this particular type of fiberglass from China Jushi to manufacture one series of our uni-directional fabrics, which were sold in the Spanish market and used in large-capacity wind turbines. China Jushi commenced sales of such fiberglass in 2014, and the revenue generated from our products that used the relevant fiberglass accounted for less than 5% of our revenue in the same year. As at the date of this prospectus, we were not aware of any litigation initiated by the defendant against China Jushi or us.

As at the date of this prospectus, we have not received any judgment from the relevant court in Spain. The legal proceedings may be time consuming, and we may have to devote significant time and resources in such proceedings. There is no assurance that we will receive favourable judgment from the relevant court, and the defendant may make counterclaims or initiate legal process against China Jushi and/or us in Spain or other jurisdictions. If the relevant court finds that the patent of the defendant is valid and the fiberglass manufactured by China Jushi has infringed such patent, we may be required to purchase alternative fiberglass from other suppliers in order to manufacture our products that are currently made of the fiberglass in dispute. We cannot assure you that we can secure alternative supply sources for fiberglass of a similar or comparable quality, and if not, our business, results of operations and financial condition may be adversely affected. Our customers may also cease procurement of the relevant fiberglass fabrics from us. Given that the proceedings are in a preliminary

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stage, we cannot estimate the outcome and impact on our business, results of operations and financial condition, which are subject to uncertainties.

Any loss of or significant reduction in the preferential tax treatment and government subsidies we currently enjoy in China may negatively affect our financial condition.

We have benefited from tax incentives and have also received government subsidies. During the Track Record Period, Hengshi Fiberglass, our PRC subsidiary, was recognised as a high and new technology enterprise by the PRC government and enjoyed a reduced income tax rate of 15% (compared to the standard income tax rate of 25%). Our effective income tax rates in 2012, 2013 and 2014 and the six months ended 30 June 2015 were 7.5%, 6.4%, 10.7% and 9.0%, respectively. The qualification as a High and New Technology Enterprise has a three-year term, subject to evaluation and renewal by the relevant Science and Technology Commission agencies. We are currently in the process of applying for the extension of this preferential tax treatment, which expired on 31 December 2014. We do not believe there is any legal impediment for us to extend such qualification. We expect that the renewal of such qualification will be approved by the end of 2015 with a three-year term from 2015 to 2017. However, we cannot assure you that we will continue to qualify for such status in the future. If we fail to maintain the High and New Technology Enterprise qualification of Hengshi Fiberglass or renew the qualification when the relevant term expires, the income tax rate applicable to Hengshi Fiberglass would increase to 25%, which could have a material adverse effect on our results of operations and financial condition. Moreover, we cannot assure you that the PRC government will not eliminate the preferential tax treatment before its scheduled expiration.

In addition, in 2012, 2013 and 2014 and the six months ended 30 June 2015, we received government subsidies of RMB3.2 million, RMB4.7 million, RMB4.0 million and RMB0.2 million, respectively, which related to our engagement in new energy industries in China. For details, see “Financial Information — Description of Principal Consolidated Statements of Comprehensive Income Items — Other Income” in this prospectus. The amounts of and conditions attached to such subsidies were determined at the sole discretion of the relevant governmental authorities. We cannot assure you that we will be eligible to continue to receive such government subsidies or that the amount of any such subsidies will not be reduced in the future, and even if we continue to be eligible to receive such subsidies, we cannot guarantee that any conditions attached to the subsidies will be as favourable to us as they have historically been. Furthermore, the PRC government from time to time adjusts or changes its policies on value-added tax, business tax and other taxes. Such adjustments or changes, together with any uncertainty resulting from such adjustments or changes, could have a material adverse effect on our business, results of operations and financial condition.

Failure to maintain inventory levels in line with the approximate level of demand for our products could cause us to lose sales or face excess inventory risks and holding costs, either of which could have a material adverse effect on our business, results of operations and financial condition.

To operate our business successfully and meet our customers’ demands and expectations, we must maintain a certain level of raw materials, as well as finished goods inventory, based on sales contracts we entered into with our customers and our internal annual budget plans to ensure timely delivery when required. We adjust our raw material procurement according to our production process, taking into account lead time required for each type of raw material, so as to maintain our inventory of raw materials at an appropriate level. However, forecasts are inherently uncertain. If our forecasted demands for raw materials are lower than our actual needs during a given period, we may not be able to maintain an adequate inventory level of raw materials or manufacture our products in a timely manner, and we may lose sales and market share to our competitors. On the other hand, we may also be exposed to increased inventory risks due to accumulated excess inventory of our finished products or raw materials. Over-stock may increase our inventory holding costs, risk of inventory obsolescence, markdown allowances or write-offs, which could have a material adverse effect on our business, results of operations and financial condition.

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We have previously entered into certain bill transactions, and such transactions were not in compliance with PRC laws.

During the Track Record Period, Hengshi Fiberglass, our PRC subsidiary, entered into arrangements with certain related parties, which involved the transfer of bank accepted bills without underlying transactions. Such arrangements were not in compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法). For details, see “Business — Regulatory Compliance and Legal Proceedings — Non-compliant Bill Arrangements.”

We have ceased entering into any further non-compliant bill transactions and started to implement measures to strengthen our internal controls since 31 October 2014. We have settled all related bills by March 2015. Furthermore, according to our PRC Legal Adviser, there are no specific provisions in the Negotiable Instruments Law of the PRC or any rules promulgated by the PBOC or the CBRC that impose any administrative or criminal liability for non-compliant bill-related transactions. As such, there is no legal basis for any PRC regulatory authority to impose administrative or criminal liability on us, our Directors or senior management in relation to our historical non-compliant bill arrangements, and to date no such liability has been so imposed. However, we cannot assure you that the relevant regulatory authorities will not impose penalties and/or fines on Hengshi Fiberglass retrospectively in the future for the previous non-compliant bill transactions. Any such penalties and/or fines could materially and adversely affect our business, results of operations and financial condition.

We may be subject to penalties for our past loan advancing activities to our related parties.

As at 31 December 2012, 2013 and 2014 and 30 June 2015, the balance of non-compliant loan to shareholder and related parties was RMB167.8 million, RMB441.2 million, RMB200.0 million and RMB0.5 million, respectively. The source of funding of such advances in 2013 included our internal resources and bank loans. We received aggregate interest payments of RMB11.4 million, RMB23.3 million, RMB16.6 million, RMB9.8 million and RMB2.9 million arising from our advances to shareholders and related parties in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively. Our profit before tax was RMB77.5 million, RMB83.5 million, RMB147.5 million, RMB39.0 million and RMB142.8 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 17.6%, 20.6%, 21.7%, 13.3% and 28.5% of our revenue during the same periods, respectively. Excluding the impact of the interest payments arising from non-compliant inter-company advances, our adjusted profit before tax would have been RMB66.0 million, RMB60.2 million, RMB130.9 million, RMB29.2 million and RMB139.9 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 15.0%, 14.8%, 19.3%, 10.0% and 28.0% of our revenue during the same periods, respectively.

Our historical inter-company advances have been fully repaid as at the Latest Practicable Date, and we do not intend to make similar advances in the future. As advised by our PRC Legal Adviser, such lending activities contravened certain provisions of the PRC Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the PRC Lending General Provisions, the maximum penalty that may be imposed on our Group by the PBOC for such contravention is a total fine in the amount between one time and five times the interests gained from such advances. In connection with the Non-compliant Inter-company Loans, on 17 April 2015, we and our PRC Legal Adviser conducted an interview with the PBOC Jiaying Central Sub-branch (中國人民銀行嘉興市中心支行), which confirmed that it has not imposed penalties on local enterprises due to non-compliant inter-company loans since 2004. For details, see “Business — Regulatory Compliance and Legal Proceedings — Non-compliant Inter-company Loans.” However, if the PBOC levies any penalties in the future, such penalties may materially and adversely affect our reputation, results of operations and financial condition.

We may be subject to additional payments of social security insurance and housing fund contributions.

According to PRC laws and regulations, we are required to pay social security insurance and housing fund contributions for all employees to designated government agencies. During the Track Record Period, we did not make housing fund contributions for certain employees, and we made social security insurance and housing fund contributions based on standards that were lower than the actual wages of our employees as required by the

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relevant PRC laws. During the Track Record Period, the aggregate shortfall amount was between approximately RMB3.5 million and RMB4.0 million. According to applicable PRC laws, the social security insurance authorities are entitled to order the employer to pay the outstanding social security insurance and impose a late charge of 0.05% per day and a fine ranging from one to three times of the outstanding social security insurance. The housing fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing fund authority may seek an order for payment from the relevant PRC court. As at the Latest Practicable Date, we had not received any notice, penalty-related or otherwise, from the relevant governmental authorities with respect to the payments of social security insurance and housing fund contributions. According to confirmation letters issued by the competent authorities in Tongxiang, Zhejiang province, we will not be required to pay the shortfall amount, nor will we be subject to any penalties or liabilities in respect of our historical practice relating to social security insurance and housing fund contributions. As such, we did not make any provision for these non-compliance incidents. However, if we are required to make additional payments of social security insurance and housing fund contributions in the future, our operating expenses will increase and consequently our results of operations and financial condition may be materially and adversely affected.

The interests of our Controlling Shareholders may differ from those of other Shareholders, which may adversely affect our business and financial condition.

Upon completion of the Global Offering, our Controlling Shareholder, Mr. Zhang Yuqiang and Huachen Investment Limited, will directly and indirectly hold 32.96% of our Company's issued share capital, assuming the Over-allotment Option is not exercised. As the ultimate Controlling Shareholder and pursuant to our Company's Articles of Association, Mr. Zhang Yuqiang will be able to influence our significant operational and financial decisions (including dividend plans and investment decisions) that require a vote by our Shareholders. In addition, Mr. Zhang Yuqiang will be able to influence the composition of our Board of Directors, will have the power to indirectly influence the selection of our senior management and will have influence over the management of our Company through his representatives on our Board of Directors. It is possible that differences in opinion may arise between Mr. Zhang Yuqiang and our remaining Shareholders from time to time. We cannot guarantee that the influence Mr. Zhang Yuqiang has on our Company is in the best interests of our remaining Shareholders.

If we lose the service of any key executive officers or senior management or skilled and experienced experts, our ability to effectively manage and execute our operations and meet our strategic objectives could be harmed.

Our success has been, and will continue to be, dependent, in large part, on the continued service of our key executive officers and senior management. Any loss or interruption of the service of our key executive officers or senior management could significantly affect our ability to effectively manage our operations and to meet our strategic objectives. In particular, we rely on the expertise, experience and leadership of our chairman and non-executive Director, Mr. Zhang Yuqiang, who plays a vital role in setting our strategic goals. In addition, upon the loss of any of our key executive officers or senior management members, we could incur additional expenses and devote significant time and resources to recruit and train replacement personnel, which could further disrupt our business and growth.

Our success also depends, to a significant extent, on our ability to attract, train and retain qualified technical experts, research and development personnel, sales and marketing personnel and customer service personnel. Recruiting and retaining capable personnel, particularly those with expertise and experience in our industry, are vital to our success. There is substantial competition in China for qualified research and development personnel, technical experts and sales and marketing professionals, and there can be no assurance that we will be able to continually attract or retain these individuals to achieve our business objectives. If we fail to attract and retain valuable employees, our competitiveness, business, results of operations and financial condition may be materially and adversely affected.

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We have limited insurance coverage in China.

Insurance companies in China offer limited business insurance products and do not, to our knowledge, offer business liability insurance. While business disruption insurance is available to a limited extent in China, we have determined that the risks of disruption, cost of such insurance and the difficulties associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, except for property insurance, vehicle insurance, group life insurance and social welfare insurance in accordance with the relevant laws and regulations in China, we do not have any business liability, disruption or litigation insurance coverage for our operations in the PRC, which we believe is in line with the industry practice in the PRC. The occurrence of certain incidents including severe weather, earthquake, fire, war, power outages, flooding and the consequences resulting from them may not be covered by our insurance policies adequately, or at all. If we were subject to substantial liabilities that were not covered by our insurance, we could incur costs and losses that could materially and adversely affect our results of operations.

We may be involved in legal and other disputes from time to time arising out of our operations, including any disputes with our raw material suppliers, third party agents and customers and, may face significant liabilities as a result.

We may from time to time be involved in disputes with various parties arising out of our operations, including raw material suppliers, third party agents, and customers. These disputes may lead to protests or legal or other proceedings and may result in damage to our reputation, substantial costs and diversion of resources and management's attention from our core business activities. In addition, we may encounter compliance issues with regulatory bodies in the course of our operations, in respect of which we may face administrative proceedings and unfavourable decisions that may result in liabilities and cause delays to our production and delivery. We may be involved in other proceedings or disputes in the future that may have a material adverse effect on our business, results of operations and financial condition.

Our business is vulnerable to interruptions caused by earthquakes, fires, floods and other natural events.

Our products and operations are vulnerable to interruption or damage caused by earthquakes, fires, floods, power losses, telecommunications failures, acts of war, human errors, epidemics, such as Severe Acute Respiratory Syndrome (SARS), H5N1 avian flu, H1N1 influenza, H7N9 influenza or the recent cases of Ebola virus disease and similar events. Significant natural disasters such as earthquake, fire or flood, may disrupt the delivery of raw materials to us and the delivery of our products to customers. Such factors beyond our control may adversely alter the consumption patterns of our end-user customers, our production schedules and the sales of our products which will, in turn, have a negative impact on our business, results of operations and financial condition.

RISKS RELATING TO INDUSTRIES RELEVANT TO OUR BUSINESS

If any uncertainties or adverse changes in government investments, initiatives and policies affect the wind turbine blade sector or other industries in which our customers operate, preventing such industry from sustaining its current pace of growth, our growth, profitability and future prospects could be materially and adversely affected.

Our business focus is to manufacture and supply fiberglass fabrics used in wind turbine blades. In 2014, over 80% of our revenue was generated from sales of fiberglass fabrics for use as the base material of wind turbine blades. The continued growth of the wind turbine blade sector overseas and in China is essential to our business growth prospects and future success.

We believe that government investments, initiatives, incentives and other favourable policies have been one of the major growth drivers for the wind turbine blade sector in the PRC and overseas. There can be no assurance, however, that government support will continue at the same present level or at all. Any decrease or delay of government investments or incentives currently available to industry participants may result in reduction of demand from our current and new customers or increasing operating costs incurred by our current customers,

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which in turn, will materially and adversely affect our business, results of operations and financial condition. Although the industry in which we operate has experienced expansion in recent years in line with the growth of the wind turbine blade sector, we cannot assure you that such growth will be sustained in the future. If the growth of the wind turbine blade sector overseas or in China slows down or continues at a rate lower than we anticipate, or if policies and regulations of local or central governments overseas or in China are perceived to discourage the development of or investment in the wind turbine blade sector, the market demand for our products may decrease, and our profitability and future prospects could be materially and adversely affected. For example, our revenue decreased by 8.1% from RMB441.0 million in 2012 to RMB405.4 million in 2013, primarily due to the slowdown in demand from our customers in the global wind turbine blade sector, principally driven by the low levels of newly installed capacity in the United States in 2013 resulting from the changes in the qualification requirements of the PTC program, which was renewed in January 2013.

In addition, we also manufacture fiberglass fabrics used in other industries, such as transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. Industry trends, market conditions and government policies in these industries may also affect the results of operations of our customers, which in turn could impact their demand for our products.

The wind turbine blade sector we serve is subject to extensive and evolving laws and regulations, failure to comply with which could subject us to severe penalties.

The wind turbine blade sector that we serve is required to comply with extensive laws and regulations on matters such as product quality and intellectual properties. For example, the Chinese government exercises considerable control over the structure and overall development of the wind turbine blade sector in China. The NDRC is the primary central government agency responsible for regulating the wind turbine blade sector in China and has broad discretion and authority. The NDRC has adopted, and may adopt in the future, regulations that impose stringent standards on the wind turbine blade sector in China, with which our customers in China must comply. In order to comply with new regulations or revisions of previously implemented regulations, our customers in China may be required to change their business plans and may therefore indirectly increase our costs or limit our ability to sell our products to such customers. If our customers or we are not able to adjust to these regulations in a timely manner, our customers or we, as the case may be, would be subject to suspension or discontinuation of operations. Therefore, adoption of new laws or regulations by the Chinese government or a change in or revision of the interpretation of existing laws or regulations may also negatively affect our business prospects.

We operate in a competitive environment.

We operate in a competitive environment, and our outlook depends on our market position based on our ability to compete with other fiberglass fabrics manufacturers. We compete on the basis of various factors, including quality, price, product variety, product performance, customer service, new product innovation, timely delivery, global presence and brand recognition. Our market share could be reduced due to aggressive pricing or product strategies pursued by competitors, unanticipated product or manufacturing difficulties, our failure to price our products competitively, our failure to produce our products at a competitive cost or unexpected, emerging technologies or products. We expect that we will face continual competition from existing domestic and international competitors and new entrants. There can be no assurance that our products will be able to compete successfully, in which case our business, results of operations and financial condition may be materially and adversely affected.

Emerging technologies and materials that provide superior performance than fiberglass fabrics may be developed and become widespread in the future, which will have a material adverse effect on our business, future prospects, results of operations and financial condition.

Although fiberglass fabrics are currently the most widely used material for wind turbine blades in the global wind turbine blade sector, other emerging technologies and materials may be developed in the future that provide better performance than fiberglass fabrics. An increase in adoption of any of these emerging technologies and materials could result in a decline in the demand for our products and a resulting decrease in our revenue.

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We may aim to adopt emerging technologies in the future to improve the performance of our fiberglass fabrics, however, our efforts may not be successful and we may incur significant resources as a result, which will have a material adverse effect on our business, future prospects, results of operations and financial condition.

RISKS RELATING TO DOING BUSINESS IN THE PRC

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on overall economic growth in China, which could materially and adversely affect our business.

Most of our operations are conducted in China, and a portion of our revenue is sourced from China. Accordingly, our prospectus, results of operations and financial condition can be substantially affected by developments in the PRC economic, political and legal conditions. The PRC government exerts substantial control over the growth of the domestic economy by means of resource allocation, setting policy on foreign exchange and payment of debts denominated in foreign currencies, setting monetary policy and giving preferential treatment to specific industries or companies. In recent years, the PRC government has implemented market-oriented reforms. Such economic reform measures could be adjusted or revised and may differ between industries or various regions in the PRC. As such, we may not benefit from such measures.

As calculated by GDP, China is one of the fastest growing economies in the world in recent years. However, China may fail to sustain its growth rate. In order to maintain economic growth in China, the PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall Chinese economy, but may also have a negative effect on us. For example, our results of operations and financial condition may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. If there is slow growth or a recession in the PRC economy, the growth of demand for our products may be lower than expected or the demand may even decrease, our interest expenses may increase, or we may face reduced access to credit. In addition, government initiatives, incentives and other favourable policies have been one of the major growth drivers for the wind turbine blade sector in recent years, which is one of the primary target markets of our products. There can be no assurance that such government policies will not change, which may adversely affect our prospects. Such changes in the PRC economy and the relevant markets in future may materially and adversely affect our business, results of operations and financial condition.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect our results of operations and financial condition and our ability to pay dividends.

Current foreign exchange regulations have reduced the PRC government's foreign exchange control on routine transactions under the current account, including trade and service-related foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, foreign currency transactions under our capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

We are exposed to foreign currency risk arising primarily from sales to overseas customers that are mainly denominated in U.S. dollars and purchases of machines and equipment in Euros. As a result, our net profit margin and other financial condition are exposed to fluctuations in the exchange rates of Renminbi against these foreign currencies. The value of Renminbi may fluctuate due to a number of factors. Under the current policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC. There has been significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further appreciation of Renminbi against the U.S. dollar or other foreign currencies. However, we cannot predict if or when any further reforms of China's exchange rate system will occur. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will also increase the value of, and any dividends

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payable on, our Shares in foreign currency terms. Conversely, any depreciation of Renminbi, which has occurred from time to time, will decrease the value of, and any dividends payable on, our Shares in foreign currency terms. There are limited instruments available in China to reduce our exposure to exchange rate fluctuations between the Renminbi and other currencies. To date, we have entered into certain foreign currency forward contracts in an effort to reduce our exposure to foreign currency exchange risks. For risks associated with our foreign currency contracts, see “— Risks Relating to Our Group — We are subject to foreign exchange rate risks, and our risk management measures may not be effective.” In any event, the availability and effectiveness of these measures may be limited, and we may not be able to mitigate our exposure successfully, or at all.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us.

We conduct our business primarily through our subsidiaries in China. Our operations in China are governed by PRC laws and regulations. The PRC legal system is based on statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations continue to evolve and there are a limited number of published decisions concerning them, which are normally not binding, their interpretation and enforcement involves uncertainties. In addition, the PRC legal system is based partly on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We principally rely on dividends and other distributions on equity paid by our PRC subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to make payments to us, or the tax implications of making payments to us, could have a material adverse effect on our ability to conduct our business or our financial condition.

We are a holding company, and we rely principally on dividends and other distributions on equity from Hengshi Fiberglass, our wholly owned subsidiary in China for our cash requirements, including the funds necessary to pay dividends to our Shareholders and service any debt we may incur. Current PRC regulations permit our subsidiary in China to pay dividends to us only out of its respective accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiary is required to set aside at least 10% of its respective after-tax profits each year, if any, to fund certain statutory reserve funds until the aggregate amount of such reserve funds reaches 50% of its registered capital. At its discretion, our PRC subsidiary may allocate a discretionary portion of its respective after-tax profits to staff welfare and bonus funds. These reserves may not be distributable as cash dividends. Furthermore, if our PRC subsidiary incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other payments to us. Most of our assets are held by, and substantially all of our earnings and cash flows are attributable to, our PRC subsidiary. Our cash flows are principally derived from dividends paid to us by our PRC subsidiary. As a result, our ability to distribute dividends largely depends on earnings from our PRC subsidiary and its ability to pay dividends out of their earnings. We cannot assure you that our PRC subsidiary will generate sufficient earnings and cash flows in the near future to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations, pay interest and expenses or declare dividends.

In addition, the EIT Law (企業所得稅法) and its implementation rules provide that a withholding tax rate of 10% will be applicable to dividends paid by foreign-invested PRC enterprises to their non-PRC resident enterprise shareholders unless otherwise exempted or reduced according to treaties or arrangements between the PRC government and governments of other countries or regions where the non-PRC resident enterprises are incorporated. The Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation on Income (中國內地和香港特別行政區關於對所得避免雙重徵稅所簽訂的安排), or the Double Tax Avoidance Arrangement, provides that dividends paid by a foreign invested enterprise in the PRC to its offshore direct holding company, which is considered a Hong Kong tax resident and determined by competent PRC tax authority to have satisfied relevant

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requirements under the Double Tax Avoidance Arrangement and other applicable PRC laws, will be subject to a withholding tax at the rate of 5% of the total dividends. Entitlement to a lower tax rate on dividends according to tax treaties or arrangements between the PRC central government and governments of other countries or regions is further subject to approval of the relevant tax authority.

Based on the Notice on Certain Issues with respect to the Enforcement of Dividend Provisions in Tax Treaties (關於執行稅收協定股息條款有關問題的通知), or Circular 81, issued on 20 February 2009 by the SAT, the relevant PRC tax authorities may deny such tax treaty benefits from conduit companies or shell companies without business substance. Furthermore, the SAT promulgated the Circular on How to Interpret and Recognise the “Beneficial Owners” in Tax Treaties (關於如何理解和認定稅收協定中“受益所有人”的通知), or Circular 601, issued by the SAT in October 2009, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under the PRC’s tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. A “conduit company” will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. A “conduit company” normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. It is unclear whether any dividends distributed by Hengshi Fiberglass to Huajin Capital Limited, our wholly-owned subsidiary incorporated in Hong Kong, will be entitled to the 5% reduced tax rate under the Double Tax Avoidance Arrangement. If Hengshi Fiberglass were to pay dividends and dividends paid to Huajin Capital Limited were subject to 10% tax rate instead of the 5% tax rate, our financial condition may be negatively affected.

We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in our global income becoming subject to 25% PRC enterprise income tax.

The EIT Law (企業所得稅法) provides that an enterprise established outside China whose “de facto management body” is located in China is considered a “PRC resident enterprise” and will generally be subject to the uniform 25% enterprise income tax rate, or EIT rate, on its global income. Under the implementation rules of the EIT Law (企業所得稅法), “de facto management body” is defined as the organisation body that effectively exercises substantial and overall management and control over such aspects as the production and business operations, personnel, accounting and properties of the enterprise, and if a foreign enterprise is deemed to be a PRC resident enterprise, dividends and other income received by its non-PRC resident enterprise shareholders from the deemed PRC resident enterprise may be considered PRC-source income and subject to a 10% PRC withholding tax, which may be reduced under any applicable double taxation agreement between the PRC and the relevant country.

On 22 April 2009, the SAT released the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知), or Circular 82, that sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC. Under Circular 82, a foreign enterprise controlled by a PRC enterprise or PRC enterprise group is considered a PRC resident enterprise if all of the following apply: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders’ meetings are located or kept within the PRC; and (iv) at least half of the enterprise’s directors with voting rights or senior management reside within the PRC. Although Circular 82 explicitly provides that the above standards apply to enterprises which are registered outside the PRC and funded by PRC enterprises or PRC enterprise groups as controlling investors, Circular 82 may reflect SAT’s criteria for determining the tax residence status of foreign enterprises in general. Moreover, Circular 82 provides that the judgement of a “de facto management body” also complies with the “substance over form” principle, which means the SAT may define an enterprise not included in the aforesaid four criteria as a “de facto management body.” It remains unclear how the tax authorities will determine the location of “de facto management body” for overseas incorporated enterprises that are controlled by individual PRC residents like us and some of our subsidiaries. We currently do not believe that we or our Hong Kong subsidiary is a PRC resident enterprise because we do not believe that we or our Hong Kong subsidiary meets all

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of the conditions above but there is no assurance in this regard. If the PRC tax authorities successfully challenge our position, we will be subject to PRC enterprise income tax reporting obligations and 25% PRC enterprise income tax on our global income. If we are treated as a PRC resident enterprise, it is not entirely clear whether dividends received from our PRC subsidiary will be exempted from the income tax. If we are treated as a PRC resident enterprise and dividends received from our PRC subsidiary are not exempt from the PRC income tax, the 25% PRC income tax on our global income could significantly increase our tax burden and materially and adversely affect our ability to satisfy any cash requirements we may be subject to.

You may be subject to PRC income tax on dividends from us or on any gain realised on the transfer of our Offer Shares.

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides for a different income tax arrangement, PRC withholding tax at the rate of 10% is normally applicable to dividends from PRC sources payable to investors that are non-PRC resident enterprises and either do not have an establishment or place of business in the PRC, or have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business. Any gain realised on the transfer of shares by such investors is subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20% and gains from PRC sources realised by such investors on the transfer of shares are subject to 20% PRC income tax (after deducting original equity value and reasonable expenses), in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. Although most of our business operations are in China, it is unclear whether dividends we pay with respect to our Shares, or the gain realised from the transfer of our Shares, would be treated as income derived from sources within the PRC and as a result be subject to PRC income tax if we are considered a PRC resident enterprise, as described in “— We may be classified as a “PRC resident enterprise” for PRC enterprise income tax purposes, which could result in our global income becoming subject to 25% PRC enterprise income tax” above. If PRC income tax is imposed on gains realised through the transfer of our Shares or if we are required to withhold PRC tax from any dividends paid to our non-resident investors, the value of your investment in our Shares may be materially and adversely affected. Furthermore, our Shareholders whose jurisdictions of residence have tax treaties or arrangements with China may not qualify for benefits under such tax treaties or arrangements.

The heightened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your investment in us.

In connection with the EIT Law, the Ministry of Finance and the SAT jointly issued, on 30 April 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (關於企業重組業務企業所得稅處理若干問題的通知), or Circular 59. On 10 December 2009, the SAT issued the Notice on Strengthening the Management on the Enterprise Income Tax for Non-resident Enterprises Equity Transfer (關於加強非居民企業股權轉讓所得企業所得稅管理的通知), or Circular 698. Both Circular 59 and Circular 698 became effective retrospectively on 1 January 2008. By promulgating and implementing these circulars, the PRC tax authorities have strengthened their scrutiny over the direct or indirect transfer of equity interest in a PRC resident enterprise by a non-PRC resident enterprise. For example, pursuant to Circular 698, if a non-resident enterprise indirectly transfers the equity interests of a PRC resident enterprise by transferring the equity interests of an overseas holding company, or an Indirect Transfer, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not impose income tax on foreign income of its residents, the transferring non-resident enterprise must report this Indirect Transfer to the competent PRC tax authority of the PRC resident enterprise. The PRC tax authority will apply the “substance over form” principle, and as a result may disregard the existence of the overseas holding company if such overseas holding company lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such an Indirect Transfer may be subject

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to PRC withholding tax at a rate of up to 10%. Circular 698 also provides that where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction. In addition, the SAT released the Public Notice on Several Issues concerning the Income Tax of Non-Resident Enterprises (關於非居民企業所得稅管理若干問題的公告) (SAT Public Notice (2011) No. 24, or SAT Public Notice 24), which took effect on 1 April 2011, to clarify several issues related to Circular 698. Under SAT Public Notice 24, the term “effective tax” refers to the effective tax on the gain derived from a disposition of any equity interests of an overseas holding company. There is uncertainty as to the application of Circular 698.

On 3 February 2015, the SAT promulgated the Public Notice Taxation on Several Issues concerning the Enterprise Income Tax on the Indirect Transfers of Properties by Non-Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告), or SAT Public Notice No. 7. SAT Public Notice No. 7 specifies the factors for the determination of reasonable business purposes, such as the overseas entity’s asset composition and the substance of its corporate structure based on functions and risks involved, along with the introduction of several safe harbour rules. The applicable scope of SAT Public Notice No. 7 is expanded from indirect transfer of equities to indirect transfer of China taxable assets. “China taxable assets” refers to those assets which are held directly by non-resident enterprises and the income derived from the transfer of which shall be subject to EIT in China pursuant to the applicable tax laws, including the assets owned by the establishments or places of non-resident enterprises in China, immovable properties located in China and equity investments in Chinese resident enterprises.

We have conducted and may conduct acquisitions and restructuring involving corporate structures, and historically our Shares were transferred by certain Shareholders to us. We cannot assure you that the PRC tax authorities will not, at their discretion, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on transfer of our Shares or any adjustment of such gains would cause us to incur additional costs.

Although it appears that Circular 698 and SAT Public Notice No. 7 were not intended to apply to purchase and sale of shares of publicly traded companies in the open market, the PRC tax authorities may determine that Circular 698 or SAT Public Notice No. 7 is applicable to our non-resident Shareholders who acquired our Shares outside of the open market and subsequently sell our Shares in private financing transactions or in the open market if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our non-resident investors or non-resident enterprise shareholders may be at the risk of being taxed under Circular 698 and SAT Public Notice No. 7 and may be required to expend valuable resources to comply with Circular 698 and SAT Public Notice No. 7 or to establish that we and our non-resident enterprise investors or non-resident enterprise Shareholders should not be taxed under Circular 698 and SAT Public Notice No. 7, which may have a material adverse effect on our results of operations and financial condition or such non-resident investors’ or such non-resident enterprise shareholders’ investments in us.

PRC regulations of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Global Offering to make loans or additional capital contributions to our PRC subsidiary, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may transfer funds to our PRC subsidiary or finance our PRC subsidiary by means of Shareholders’ loans or capital contributions upon completion of the Global Offering. Any loans to our PRC subsidiary, which are foreign-invested enterprises, or FIEs, cannot exceed statutory limits based on the difference between the registered capital and the investment amount of such subsidiaries, and shall be registered with the SAFE or its local counterparts.

Furthermore, any capital contributions we make to our PRC subsidiary shall be approved by the MOFCOM or its local counterparts. We may not be able to obtain these government registrations or approvals on a timely basis, if at all. If we fail to receive such registrations or approvals, our ability to provide loans or capital contributions to our PRC subsidiary in a timely manner may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

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In addition, the SAFE promulgated the Circular on the Relevant Operating Issues Concerning Administration Improvement of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知), or Circular 142, on 29 August 2008. Under Circular 142, registered capital of a foreign invested company settled in RMB converted from foreign currencies may only be used within the business scope approved by the applicable governmental authority and may not be used for equity investments in the PRC unless such activity is set forth in the business scope or is otherwise permissible under PRC laws or regulations. In addition, foreign-invested companies may not change the use of such capital without the SAFE's approval, and may not in any case use such capital to repay RMB loans if proceeds of such loans have not been utilised.

On 30 March 2015, the SAFE promulgated the Circular on Reforming the Administration Measures on Conversion of Foreign Exchange Registered Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資金結匯管理方式的通知), or Circular 19, which will replace Circular 142 from 1 June 2015. Circular 19, however, allows foreign invested enterprises in China to use their registered capital settled in RMB converted from foreign currencies to make equity investments, but the registered capital of a foreign invested company settled in RMB converted from foreign currencies remains not allowed to be used for investment in the security markets, offering entrustment loans or purchases of any investment properties.

Furthermore, the SAFE promulgated the Circular on Further Clarification and Regulation of the Issues Concerning the Administration of Certain Capital Account Foreign Exchange Businesses (關於進一步明確和規範部分資本項目外匯業務管理有關問題的通知), or Circular 45, on 9 November 2011, which expressly prohibits foreign-invested enterprises from using the registered capital settled in RMB converted from foreign currencies to grant loans through entrustment arrangements with a bank, repay inter-company loans or repay bank loans that have been transferred to a third party.

Circular 19 and Circular 45 may limit our ability to transfer the net proceeds from the Global Offering to our PRC subsidiary and convert the net proceeds into RMB, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC.

Restrictions on the remittance of RMB into and out of the PRC and governmental control of currency conversion may limit our ability to pay dividends and other obligations, and affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and the remittance of currency out of China. We receive a considerable portion of our revenues in RMB. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC operating subsidiaries. We may convert a portion of our revenue into other currencies to meet our foreign currency obligations, such as payments of dividends declared in respect of our Shares, if any. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval by complying with certain procedural requirements. However, approval from or registration with competent government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may at its discretion restrict access to foreign currencies for current account transactions in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of PRC.

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We may be subject to penalties, including restriction on our ability to inject capital into our PRC subsidiary and our PRC subsidiary's ability to distribute profits to us, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations.

The SAFE issued the Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), or Circular 37, effective on 4 July 2014, which replaced the previous Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or Circular 75. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. Such offshore entity is referred to as an offshore special purpose vehicle. In addition, such PRC residents must update their foreign exchange registrations with the SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder holding interest in an offshore special purpose vehicle, who is a PRC resident as determined by Circular 37, fails to fulfil the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

To the best of our knowledge, as at the Latest Practicable Date, our PRC Shareholders who fall within the ambit of Circular 37 had registered with the SAFE. However, we may not be fully informed of the identities of all our Shareholders or beneficial owners who are PRC residents, and we cannot provide any assurance that all of our Shareholders and beneficial owners who are PRC residents will comply with our request to make, obtain or update any applicable registrations or comply with other requirements required by the Circular 37 or other related rules in a timely manner. If any of our Shareholders who is a PRC resident as determined by Circular 37 fails to fulfil the required foreign exchange registration with the local SAFE branches, our PRC subsidiary may be prohibited from distributing their profits and dividends to us or from carrying out other subsequent cross-border foreign exchange activities, and we may be restricted in our ability to contribute additional capital to our PRC subsidiary, which will adversely affect our business.

Fluctuation in the value of the RMB may have a material adverse effect on the value of your investment.

The value of RMB against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to changes resulting from the PRC government's policies and depends to a large extent on domestic and international economic and political developments as well as supply and demand in the local market. From 1994 to July 2005, the official exchange rate for the conversion of RMB to the U.S. dollar was generally stable. In July 2005, the PRC government changed its decade-old policy of pegging the value of RMB to the U.S. dollar and RMB appreciated more than 20% against the U.S. dollar over the following three years. From July 2008 to June 2010, RMB traded within a narrow range against the U.S. dollar. Since June 2010, RMB has appreciated against the U.S. dollar from approximately RMB6.83 per U.S. dollar to approximately RMB6.3945 per U.S. dollar as at 27 November 2015. It is difficult to predict how RMB exchange rates may change going forward. With an increased floating range of RMB's value against foreign currencies, RMB may further appreciate or depreciate significantly in value against the Hong Kong dollar, the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of RMB against the U.S. dollar or other foreign currencies.

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During the Track Record Period, we generated a portion of our revenue from customers in countries and regions outside China, who made purchases in foreign currencies. As a result, we are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and Euro. There are limited instruments available in China to reduce our exposure to exchange rate fluctuations between RMB and other currencies. The cost of such instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. In any event, the availability and effectiveness of these risk management measures may be limited and we may not be able to mitigate our exposure successfully, or at all.

It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgments against them in China.

Most of our assets are situated in China and most of our Directors and officers reside in, and most of their respective assets are located in, China. As a result, it may be difficult to effect service of process outside China upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and most other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in China any judgments obtained from non-PRC courts.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and the liquidity and market price of our Shares may be volatile.

Prior to the completion of the Global Offering, there has been no public market for our Shares. The Offer Price is the result of negotiations between us and the Sole Global Coordinator (on behalf of the Underwriters), which may not be indicative of the price at which our Shares will be traded following completion of the Global Offering. In addition, there can be no guarantee that an active trading market for our Shares will develop; or, if it does develop, that it will be sustained following completion of the Global Offering; or that the market price of our Shares will not decline below the Offer Price.

The trading price of our Shares may be volatile, which could result in substantial losses to you.

The trading price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including general market conditions of the securities markets in Hong Kong, China, the United States and elsewhere in the world. In particular, the performance and fluctuation of the market prices of other companies with business operations located mainly in China that have listed their securities in Hong Kong may affect the volatility in the price of and trading volumes for our Shares. The trading performances of the securities of these companies at the time of or after their offerings may affect the overall investor sentiment towards PRC-based companies listed in Hong Kong and consequently may impact the trading performance of our Shares. These broad market and industry factors may significantly affect the market price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and trading volume for our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, earnings and cash flow could cause the market price of our Shares to change substantially. Any of these factors may result in large and sudden changes in the volume and trading price of our Shares.

You will incur immediate and substantial dilution and may experience further dilution in the future.

As the Offer Price of our Shares is higher than the net tangible book value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution. If we issue additional Shares in the future, purchasers of our Shares in the Global Offering may experience further dilution in their shareholding percentage.

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The sale or availability for sale of substantial amounts of our Shares, especially by our Directors, executive officers and current Shareholders, could adversely affect the market price of our Shares.

Future sales of a substantial number of our Shares by our existing shareholders, or the possibility of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares to be held by our Controlling Shareholders are subject to certain lock-up periods beginning on the date on which trading in our Shares commences on the Hong Kong Stock Exchange. While we currently are not aware of any intention of our Controlling Shareholders to dispose of significant amounts of their Shares after the expiry of the lock-up periods, we cannot assure you that they will not dispose of any Shares they may own now or in the future.

You may experience difficulties in enforcing your Shareholder rights because we are incorporated in the Cayman Islands; the law of the Cayman Islands is different from the law of Hong Kong and other jurisdictions and may not provide the same protections to minority shareholders.

We are an exempted company incorporated in the Cayman Islands with limited liability, and the law of the Cayman Islands differs in some respects from that of Hong Kong or other jurisdictions where investors may be located.

Our corporate affairs are governed by our Articles, the Cayman Islands Companies Law and the common law of the Cayman Islands. The rights of shareholders to take legal action against us and our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive but not binding authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong, the United States or other jurisdictions where investors may be located. In particular, the Cayman Islands has a less developed body of securities law. As a result, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our management, Directors or major Shareholders than they would as shareholders of a Hong Kong company, a United States company or companies incorporated in other jurisdictions.

Certain facts and statistics contained in this prospectus are derived from a third party report and publicly available sources.

This prospectus, particularly the section headed “Industry Overview”, contains information and statistics relating to the fiberglass, fiberglass fabrics and wind power industries. Such information and statistics have been derived from a third party report commissioned by us, various government publications and other publicly available sources. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. However, we cannot guarantee the quality or reliability of such source materials. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics included in this prospectus being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In any event, you should consider carefully the importance placed on such information or statistics.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus and the related Application Forms include particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and the related Application Forms and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

- the facts contained in this prospectus are accurate and complete in all material respects and not misleading or deceptive;
- there are no other facts the omission of which would make any statement herein misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Hong Kong Public Offer, which forms part of the Global Offering. The Global Offering comprises the International Offering of initially 225,000,000 Offer Shares and the Hong Kong Public Offer of initially 25,000,000 Offer Shares, each subject to adjustments on the basis as described in the section headed "Structure of the Global Offering" in this prospectus and without taking into account the Over-allotment Option.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. Subject to the terms of the Underwriting Agreements, the Hong Kong Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Offering Shares are fully underwritten by the International Underwriters. Further information regarding the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus and the related Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and any of their respective directors, officers, employees, agents or representatives or advisers or any other persons involved in the Global Offering.

SELLING RESTRICTIONS

Each person acquiring the Hong Kong Offer Shares will be required to, or be deemed by his acquisition of the Hong Kong Offer Shares to, confirm that he is aware of the restrictions on offers of the Hong Kong Offer Shares described in this prospectus and the related Application Forms.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus, and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Hong Kong Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

APPLICATION FOR LISTING ON THE MAIN BOARD

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option).

Dealings in the Shares on the Stock Exchange are expected to commence on 21 December 2015. No part of our Company's Shares or loan capital is listed or dealt in on the Stock Exchange or any other stock exchange and no listing or permission to deal in the Shares is being or is proposed to be sought on any other stock exchange as at the date of this prospectus. All the Offer Shares will be registered on the Hong Kong Share Register of our Company in order to enable them to be traded on the Stock Exchange.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Offer Shares or exercising any rights attached to them. Neither our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, nor any of our or their respective directors, officers, employees, agents or representatives or advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, the Offer Shares or exercising any rights attached to them.

OVER-ALLOTMENT

Details of the arrangement relating to the Over-allotment Option are set out in the section headed "Structure of the Global Offering — Over-allotment Option" in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" of this prospectus and on the related Application Forms.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Particulars of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" of this prospectus.

HONG KONG REGISTER OF MEMBERS AND HONG KONG STAMP DUTY

Our Company's principal register of members will be maintained by its principal share registrar and transfer office, Intertrust Corporate Services (Cayman) Limited, in the Cayman Islands. All of the Shares allocated pursuant to the Global Offering will be registered on our Company's register of members to be maintained in Hong Kong by its Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Dealings in the Shares registered in our Company's Hong Kong Share Registrar will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

dealings in the Shares on the Stock Exchange or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

COMMENCEMENT OF DEALINGS IN SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on 21 December 2015. Shares will be traded in board lots of 2,000 Shares each.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars. No representation is made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all. Unless indicated otherwise, (i) the translations between Renminbi and HK dollars were made at the rate of RMB0.8247 to HK\$1.00, being the PBOC rate prevailing on 27 November 2015, and (ii) the translations between Renminbi and U.S. dollars were made at the rate of RMB6.3945 to US\$1.00, being the noon buying rates in New York City for cable transfers as certified for customers purpose by the Federal Reserve Bank of New York on 27 November 2015.

ROUNDING

Unless otherwise stated, all the numerical figures are rounded to one decimal place. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

TRANSLATION

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translation for reference only.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Global Offering, we have sought and have been granted the following waivers from strict compliance with the relevant provisions of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue after the Listing, certain transactions which will constitute non-exempt continuing connected transactions under the Listing Rules upon Listing. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, waivers from strict compliance with the announcement requirement and, where applicable, the independent shareholders' approval requirement under Chapter 14A of the Listing Rules in respect of the non-exempt continuing connected transactions.

The details of the waivers are set out in the section headed "Connected Transactions" in this prospectus.

MANAGEMENT PRESENCE

Pursuant to Rule 8.12 of the Listing Rules, we are required to have sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong.

The headquarters of the Group is located in China. Our executive Director and all members of the senior management of the Company currently reside in China. We do not and, in the foreseeable future, will not have sufficient management presence in Hong Kong for the purpose of satisfying the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules, subject to the condition that the following measures and arrangements are made for maintaining regular communication between the Stock Exchange and us:

- (a) Ms. Huang Junjun (the Company's executive Director) and Mr. Yin Hang (one of the Company's joint company secretaries), both residents of the PRC, have been designated as the Company's authorised representatives (the "**Authorised Representatives**") and, hence, will be our principal channel of communication with the Stock Exchange. Ms. Wong Sau Ping (one of the Company's joint company secretaries and a resident in Hong Kong) has been designated as an alternate to each of Ms. Huang Junjun and Mr. Yin Hang (the "**Alternate Authorised Representative**"). All of Ms. Huang Junjun, Mr. Yin Hang and Ms. Wong Sau Ping would be readily contactable by telephone, facsimile, and/or email by the Stock Exchange and will be able to meet with the Stock Exchange to discuss any matters in relation to the Company at short notice;
- (b) in addition, each of Ms. Huang Junjun, Mr. Yin Hang and Ms. Wong Sau Ping has means to contact all members of the Board of Directors and senior management promptly at all times as and when the Stock Exchange wishes to contact the Directors of the Company;
- (c) each Director has provided his or her mobile phone number, office phone number, fax number and email address to the Authorised Representatives, the Alternate Authorised Representative and the Stock Exchange;
- (d) each of the Directors possesses valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable time; and
- (e) we have appointed Guotai Junan Capital Limited as our compliance adviser who will serve as an additional channel of communication with the Stock Exchange from the Listing Date to the date when the Company dispatches its annual report to the Shareholders for the first full financial year immediately after the Listing. Guotai Junan Capital Limited will maintain constant contact with the Authorised Representatives, the Alternate Authorised Representative Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

JOINT COMPANY SECRETARY

Pursuant to Rules 8.17 and 3.28 of the Listing Rules, the secretary of the Company must be an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of a company secretary.

We have appointed Mr. Yin Hang as our company secretary. As Mr. Yin Hang does not possess the relevant qualification required under Rule 3.28 of the Listing Rules, we have appointed Ms. Wong Sau Ping, who is a Hong Kong resident and possesses the required qualification stipulated in Rule 3.28 of the Listing Rules, to act as a joint company secretary of the Company. Moreover, we have procedures in place to provide Mr. Yin Hang with appropriate training in order to enable Mr. Yin Hang to acquire such necessary experience to discharge a secretary's duties with the assistance of Ms. Wong Sau Ping.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 3.28 and Rule 8.17 of the Listing Rules in connection with the appointment of Mr. Yin Hang as our company secretary, on the condition that Ms. Wong Sau Ping is appointed as a joint company secretary. In the initial three years from the Listing Date, Ms. Wong Sau Ping, as joint company secretary, will work closely with, and provide assistance to, Mr. Yin Hang in the discharge of his duties as a company secretary. At the end of the three-year period, an evaluation of the qualifications and experience of Mr. Yin Hang and in turn the need for ongoing assistance will be made to determine if the requirements under Rule 8.17 will then be satisfied.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
Non-Executive Directors		
Mr. ZHANG Yuqiang (張毓強) (Chairman)	No. 12 Xueqian Road, Wutong Street, Tongxiang, Zhejiang Province, PRC	Chinese
Mr. ZHANG Jiankan (張健侃)	No.12 Xueqian Road, Wutong Street, Tongxiang, Zhejiang Province, PRC	Chinese
Mr. TANG Hsin-hua (唐興華)	10th Floor, Building No. 1, No. 195 Guangfu North Road, 31 Lin, Dongrongli, Songshan District, Taipei, Taiwan	Taiwanese
Mr. WANG Yuan (王源)	Suite 109, Building No. 3, Xinyuan, Baixia District, Nanjing, Jiangsu Province, PRC	Chinese
Executive Directors		
Mr. ZHOU Tingcai (周廷才)	Room 303, Unit 1, Block 19, 2nd Area, Cuiyuan New Village, Xihu District, Hangzhou, Zhejiang Province, PRC	Chinese
Ms. HUANG Junjun (黃鈞筠)	Suite 601, Unit 2, Block 2, Qinyuan, Liuying Garden, Fuxing South Road, Wutong Street, Tongxiang, Zhejiang Province, PRC	Chinese
Independent Non-Executive Directors		
Mr. FANG Xianbai (方賢柏)	Suite 1607, No. 127 Jiqing Road, Qinhuai District, Nanjing, Jiangsu Province, PRC	Chinese
Mr. PAN Fei (潘飛)	Suite 501, No. 50, No. 75 Lane, Wuchuan Road, Yangpu District, Shanghai, PRC	Chinese
Mr. CHEN Zhijie (陳志傑)	No. 3 Nanheyan Street, Dongcheng District, Beijing, PRC	Chinese

See the section headed “Directors and Senior Management” in this prospectus for further information with respect to our Directors.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator	Morgan Stanley Asia Limited 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
Joint Bookrunners and Joint Lead Managers	Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offer) 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Morgan Stanley & Co. International plc
(in relation to the International Offering)
25 Cabot Square
Canary Wharf
London E14 4QA
United Kingdom

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Co-Lead Manager

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Legal Advisers to the Company

As to Hong Kong and United States laws
Slaughter and May
47th Floor, Jardine House
One Connaught Place
Central
Hong Kong

As to PRC law
AllBright Law Offices
14/F, Citigroup Tower
33 Hua Yuan Shi Qiao Road
Pudong New Area, Shanghai
PRC

As to Cayman law
Walkers
Suite 1501–1507, Alexandra House
18 Chater Road
Central
Hong Kong

As to Egyptian law
Mena Associates
in association with
Amereller Rechtsanwälte
GIC Tower
21, Soliman Abaza Street
Mohandiseen, Cairo
Egypt

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to the Underwriters

As to Hong Kong and United States laws
Skadden, Arps, Slate, Meagher & Flom and affiliates
42/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road
Chaoyang District, Beijing
PRC

Auditor and Reporting Accountant

Deloitte Touche Tohmatsu
Certified Public Accountants
35/F, One Pacific Place
88 Queensway
Admiralty, Hong Kong

Independent Industry Consultant

**Germanischer Lloyd Industrial Services (Shanghai)
Co. Ltd.**
Room 1818-39, Shanghai Central Plaza
No. 381 Huaihai Middle Road, Shanghai
PRC

Property Valuer

Greater China Appraisal Limited
Room 2703, Shui On Centre
6-8 Harbour Road, Wanchai
Hong Kong

Receiving Bank

Bank of Communications Co., Ltd. Hong Kong Branch
20 Pedder Street
Central
Hong Kong

CORPORATE INFORMATION

Registered Office	190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands
Headquarters	No. 1 Guang Yun South Road Tongxiang Economic Development Zone Tongxiang, Zhejiang Province PRC
Place of Business in Hong Kong	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Website Address	<u>www.chinahengshi.com.cn</u> <i>(The contents of this website do not form part of this prospectus)</i>
Company Secretary	Mr. YIN Hang (尹航) No. 708 Chongfu Avenue, Tongxiang Zhejiang Province PRC Ms. WONG Sau Ping (黃秀萍) (ACIS; ACS) 36/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
Authorised Representatives	Mr. YIN Hang (尹航) No. 708 Chongfu Avenue, Tongxiang Zhejiang Province PRC Ms. HUANG Junjun (黃鈞筠) No. 1 Guang Yun South Road Tongxiang Economic Development Zone Tongxiang, Zhejiang Province PRC
Members of the Audit Committee	Mr. FANG Xianbai (方賢柏) (Chairman) Mr. WANG Yuan (王源) Mr. PAN Fei (潘飛)
Members of the Nomination Committee	Mr. ZHANG Yuqiang (張毓強) (Chairman) Mr. FANG Xianbai (方賢柏) Mr. CHEN Zhijie (陳志傑)
Members of the Remuneration Committee	Mr. FANG Xianbai (方賢柏) (Chairman) Mr. ZHANG Jiankan (張健侃) Mr. PAN Fei (潘飛)

CORPORATE INFORMATION

Principal Share Registrar and Transfer Office	Intertrust Corporate Services (Cayman) Limited 190 Elgin Avenue George Town Grand Cayman KY1-9005 Cayman Islands
Hong Kong Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Compliance Adviser	Guotai Junan Capital Limited 2601-03, 26/F., Low Block Grand Millennium Plaza 181 Queen's Road, Central Hong Kong
Principal Banks	Bank of China Limited Tongxiang Branch No. 44 Yuanlin Road Tongxiang, Zhejiang Province PRC China Merchants Bank Co., Limited Jiaxing Tongxiang Branch No. 122 Zhenxing East Road Tongxiang, Zhejiang Province PRC

INDUSTRY OVERVIEW

The Company has engaged GLIS Shanghai, an independent consultant, to prepare an industry report for use, in whole or in part, in this prospectus. GLIS Shanghai prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organisations. Where necessary, GLIS Shanghai contacted companies operating in the industry to gather and synthesise information about market, prices and other relevant information. GLIS Shanghai has exercised reasonable care in ensuring that the information and data which it relied for the industry report on are complete and accurate.

GLIS Shanghai has provided part of the statistical and graphical information contained in this Industry Overview. GLIS Shanghai has advised that (i) some information in its database is derived from estimates from industry sources or subjective judgments; and (ii) the information from other data collection agencies may differ from the information in GLIS Shanghai's database. We believe that the sources of the information are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering, and no representation is given as to its accuracy.

SOURCE OF INFORMATION

In connection with the Global Offering, we have engaged GLIS Shanghai, an Independent Third Party, to conduct research on the fiberglass fabrics industry, particularly with respect to its use as a material in the wind turbine blade sector. We have been charged a total amount of US\$120,000 by GLIS Shanghai for the research for, and the preparation of, the DNV GL Report.

GLIS Shanghai, founded in 2009, provides consulting, inspection and measurement services. GLIS Shanghai has extensive experience in fiberglass fabrics, including the applications of fiberglass fabrics in the wind turbine blade sector, in multiple regions. Methods utilised in preparing the DNV GL Report included a combination of interviews with key market players, web-based searches for public-domain data and review of annual reports from listed companies and selected industry reports. For each regional market, similar methods have been applied with respect to information collection.

In evaluating the use of fiberglass fabrics in the wind turbine blade sector, GLIS Shanghai has performed both “supply side” and “demand side” evaluations. Supply side data has been taken from industry sources indicating the amount of various materials currently being sold for the manufacture of wind turbine blades, as well as planned future production. The demand side evaluation has been performed using a blade structure computer model to define the material distribution by weight in typical blades, and the projected markets for wind turbines. This evaluation includes the expected regionally-specific installed wind turbine quantities and blade sizes, current and future trends in blade design and material selection, as well as blade replacement efforts at existing wind farms. Supply side and demand side results have been compared for consistency and as independent checks on the overall study results. The “supply side” data obtained by GLIS Shanghai, however, has several elements of uncertainty, including (i) the time lag between fiberglass fabric orders, manufacturing of fiberglass fabrics and use of fiberglass fabrics in the production of wind turbine blades, (ii) the under-estimates or over-reporting of sales volume of fiberglass fabrics used in wind turbine blades by other fiberglass fabrics manufacturers, and (iii) the occurrence of re-blading at certain rates.

On the above basis, our Directors are satisfied that the disclosure of future projections and industry data in this section is not biased or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there has been no adverse change in the market information since the date of the DNV GL Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

INDUSTRY OVERVIEW

FIBERGLASS FABRICS FOR ALL SECTORS

Fiberglass fabrics are made of fiberglass, which is the original fiber reinforcement of modern fiber-reinforced plastic composites. Fiberglass fabrics are used in a wide range of applications, including wind turbine blades, transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. Globally, wind turbine blades and electrical applications are the largest end markets for fiberglass fabrics, followed by the construction industry and marine applications, subject to the market conditions of each specific industry. The total global production volume of fiberglass fabrics was estimated by GLIS Shanghai to be approximately 1.0 million tonnes in 2014, of which approximately 398,400 tonnes were used in the wind turbine blade sector.

CARBON FIBER FOR WIND TURBINE BLADE SECTOR

According to the DNV GL Report, in recent years, certain wind turbine blade manufactures have been using carbon fiber as raw materials for the spar structure of their wind turbine blades. Carbon fiber enables stiff and lightweight wind turbine blades, which offer increasing advantage as wind turbines become increasingly large. However, According to the DNV GL Report, it is not clear that the use of carbon fiber will trend upward in either the onshore or offshore wind turbine blade sectors. Disadvantages for carbon fiber include: (i) commercial carbon fiber for wind blades cost-per-weight is eight to 12 times that of glass fibers; (ii) carbon fiber is more sensitive to any manufacturing variations, including fiber alignment; and (iii) carbon fiber is conductive, as a result, the lightning protection system is complicated by the use of carbon fiber in the wind turbine blades. According to GLIS Shanghai, although the cost-per-weight of commercial carbon fiber used in wind blades is eight to 12 times of that of glass fiber, the resulting carbon-reinforced plastic (“CRP”) laminate is approximately three times as stiff, two times as strong, and 20% lower in density than equivalent fiberglass laminate. With these parameters, a simple substitution of glass-reinforced plastic (“GRP”) structural laminate with CRP is not economically favourable. Therefore, when CRP is used in blades, it is typically limited to the load-carrying spars, with skins, root build-up and shear webs still constructed from fiberglass fabrics. Further, CPR spars are typically used to achieve advantages of stiffness-to-weight and/or strength-to-weight in the blades as well as to enable other advantages in the wind turbine system (e.g., reduced loads and costs for major structural components of turbine). The decision to use a GRP or CRP spar is therefore typically made based on cost-benefit analyses of turbine-system, not just on the cost and weight of the blades themselves. According to the DNV GL Report, the percentage of blades utilising carbon fiber in their spar structure has reduced in recent years from 23% in 2012 to 19% in 2013, and the DNV GL Report predicted a further decreasing trend for carbon fiber. In addition, the DNV GL Report cites a trend toward increased use of high-stiffness glass fiber as one factor driving reduced use of carbon.

INDUSTRY OVERVIEW

FIBERGLASS FABRICS FOR WIND TURBINE BLADE SECTOR

Overview

Multi-axial fabrics and uni-directional fabrics are the major types of fiberglass fabrics used in wind turbine blades and are described in further detail below.

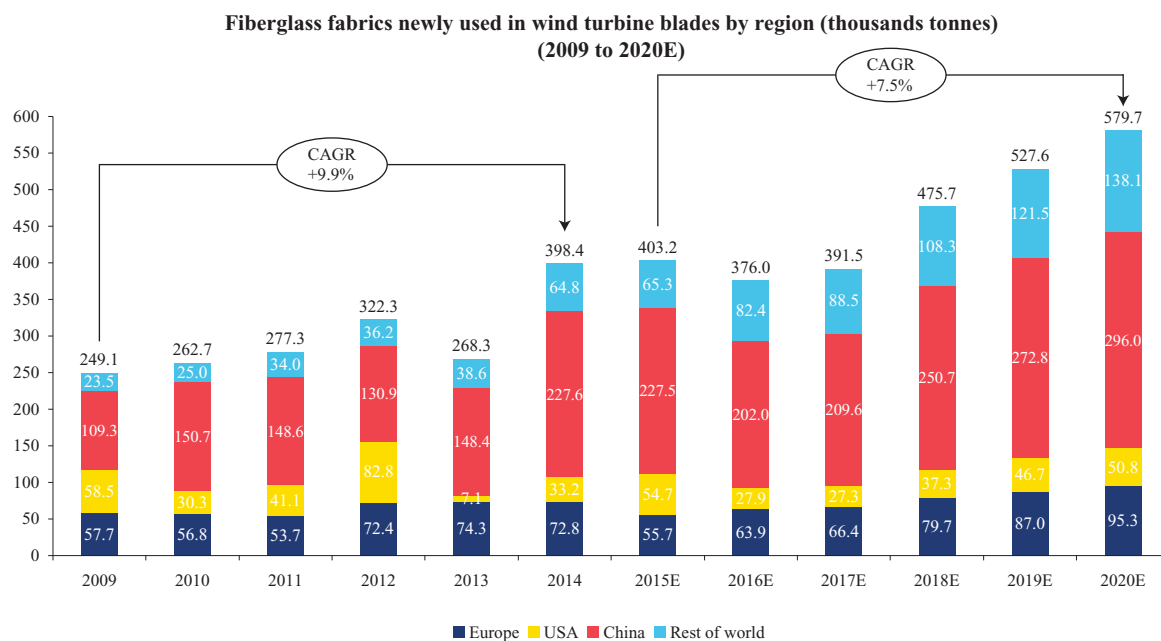
Product type	Description	Applications
Multi-axial fabrics	<p>Multi-axial fabrics are constructed from uni-directional rovings placed together in specific orientations, which are held together by through-the-thickness stitching or knitting. Multi-axial fabrics primarily consist of the following product categories:</p> <ul style="list-style-type: none">• Bi-axial fabrics, the fibers of which are typically placed in $\pm 45^\circ$ directions;• Tri-axial fabrics, the fibers of which are typically placed in $-45^\circ/0^\circ/+45^\circ$ directions; and• Quad-axial fabrics, the fibers of which are typically placed in $-45^\circ/0^\circ/+45^\circ/+90^\circ$ directions.	<p>Multi-axial fabrics are a major type of fiberglass fabrics used in wind turbine blades.</p> <ul style="list-style-type: none">• Bi-axial fabrics are used as shear web facings, skins and root connection build-up of wind turbine blades.• Tri-axial fabrics are used as skins and root connection build-up of wind turbine blades.• Quad-axial fabrics are used as root connection build-up of wind turbine blades. <p>In addition to wind turbine blades, multi-axial fabrics are also used in other industries such as pipelines, tanks, ship hulls and aerospace structures.</p>
Uni-directional fabrics	<p>Uni-directional fabrics are constructed from uni-directional rovings, with primary fibers in the 0° direction. Uni-directional fabrics are typically held together by through-the-thickness stitching or knitting.</p>	<p>Uni-directional fabrics are used in various industries, such as wind turbine blades (e.g., spar cap and trailing-edge stiffener).</p>

To a lesser extent, mats and woven fabrics are also used in wind turbine blades. For example, mats, which are made of chopped or continuous fibers in random orientations, are used as cosmetic veil on outer surface or to aid the infusion of liquid resin during the manufacturing process of blades. Woven fabrics, which were historically used in wind turbine blades, are rarely used in current designs of blades.

INDUSTRY OVERVIEW

Market Size and Growth Trend

The following chart sets forth the historical (2009 to 2014) and forecast (2015 to 2020) newly-added use of fiberglass fabrics, consisting of multi-axial fabrics and uni-directional fabrics, in wind turbine blades by region.



Source: DNV GL Report

The demand for fiberglass fabrics used in the wind turbine blade sector has grown in recent years, reaching a peak amount of 398,400 tonnes in 2014, and is expected to further achieve an overall growth by 2020. According to the DNV GL Report, the newly-added use of fiberglass fabrics in wind turbine blades globally increased from 249,100 tonnes in 2009 to 398,400 tonnes in 2014 with a CAGR of 9.9% during such period, and is estimated to reach 579,700 tonnes in 2020 with a CAGR of 7.5% from 2015 to 2020. The estimate was made with reference to a number of sources regarding the past and future market trends within the global wind power market, including multiple market reports, DNV GL’s database of the global wind project pipeline and the Global Wind Energy Outlook report issued by the Global Wind Energy Council in October 2014. The newly-added use of fiberglass fabrics in wind turbine blades decreased by 16.7% from 2012 to 2013, which was mainly caused by a 12.0 GW decrease in newly installed wind power capacity in the United States in 2013. For details of the government policy driving such decrease, see “— Growth Drivers — Government Policies and Targets” in this section. According to the DNV GL Report, the newly-added use of fiberglass fabrics in wind turbine blades is expected to slightly slow down in 2016 and 2017, although the annual demand for fiberglass fabrics from the global wind turbine blade sector in each of these two years is expected to be still higher than any of the years between 2009 and 2013. Such slowdown was primarily due to a slowdown in the estimated newly-installed wind power capacity as a result of (i) regulatory and political uncertainties in Europe, (ii) expiration of the PTC program for wind power projects after the end of 2014 in the United States; and (iii) reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or authorised before 1 January 2015 but connected to the grid after 1 January 2016.

The reduced feed-in tariffs is expected to affect the Group’s future business operations and financial performance mainly in terms of sales volume and selling price.

Impact on Sales Volume. The wind sector in the PRC is policy-driven. The PRC government has set the targeted installed capacity in the wind sector by 2020 to be approximately 200 GW. The PRC government’s policy on reduced feed-in tariffs in the wind sector was launched in December 2014. The impact of the tariff was factored in the forecast on the market trend in the next five years in the DNV GL Report. According to DNV

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GL's forecast, although there will be fluctuations and/or downturns in the installed capacity in the next two years (which may be partially affected by the reduced feed-in tariffs), the wind-sector market in China is expected to have an overall upward trend in the next five years. Therefore, regardless of the fluctuations which the market may experience as indicated above, we believe that our sales volume can still maintain an overall upward trend in the next five years due to our leading position in the industry.

Impact on Selling Price. The policy on reduced feed-in tariffs was launched due to relatively high margins for independent wind power producers (the "Wind IPPs") and therefore the PRC government intended to bring down the margins to a reasonable level. There has been an overall decrease in the selling price of wind turbines in the past five years. Given that the quality of wind turbines is critical to the safe operation of wind farms, we believe that Wind IPPs are unlikely to accept further lowering of the price of wind turbines, otherwise product quality and operational safety may be adversely affected. Even if Wind IPPs decide to shift the margin pressure upstream, we believe that fiberglass fabrics manufacturers are unlikely to face a severe general margin squeeze, as fiberglass fabrics only account for a small amount of the costs for wind turbines and wind turbine blades, respectively. Based on the latest contracts entered into by us, the decrease in selling price of fiberglass fabrics sold to our PRC customers is limited.

Based on the reasons above, we believe that the impact of the reduced feed-in tariffs on our future business operations and financial performance is limited.

For risks in relation to uncertainties or adverse changes in government investments, initiatives and policies, see "Risk Factors — Risks Relating to Industries Relevant to Our Business — If any uncertainties or adverse changes in government investments, initiatives and policies affect the wind turbine blade sector or other industries in which our customers operate, preventing such industry from sustaining its current pace of growth, our growth, profitability and future prospects could be materially and adversely affected." According to the DNV GL Report, the demand for fiberglass fabrics in wind turbine blades is expected to show a recovery in 2018, 2019 and 2020.

According to the DNV GL Report, the estimated overall increase during the period from 2015 to 2020 and the downturn in certain years during that period are not inconsistent with historical market fluctuations in the wind power industry. During the past 20 years, the global wind power market experienced several instances of downturns lasting one to two years that were followed by periods of growth, leading to a long-term overall growth trend. This pattern was also evident in the development of the wind power industry between 2009 and 2014 as newly installed global wind power capacity slowed down to 36.6 GW in 2013 from 45.2 GW in 2012, but increased significantly to 51.7 GW in 2014.

Breakdown by Product Types

According to the DNV GL Report, an aggregate of 398,500 tonnes of multi-axial and uni-directional fabrics were newly used in the global wind turbine blades sector in 2014, of which multi-axial fabrics accounted for 59.2% and uni-directional fabrics accounted for the remaining 40.8%. Such proportion is estimated to remain stable through to 2020, according to the DNV GL Report.

Breakdown by Onshore and Offshore Use

With the exception of Europe, the historical use of fiberglass fabrics for offshore wind turbine blades has been minimal. The global use of fiberglass fabrics for offshore wind turbine blades accounted for less than 3.0% of the total fiberglass fabrics used in the wind turbine blade sector globally for most of the time from 2009 to 2014, while such percentage is estimated to increase to 6.1% in 2020, according the DNV GL Report.

Market for Re-blading

The standard design life for wind turbine blades is approximately 20 years. There has been a recent trend toward life extension to 25 years, either by initial design modifications or alternative operation and maintenance strategies. However, the actual useful life of wind turbine blades may be shorter on a case-by-case basis, due to a

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number of factors such as ice, sand and salt, as well as hot and wet environmental conditions which will require re-blading of wind turbines.

Re-blading of wind turbines in all the major wind power markets has been growing in recent years. Re-blading generally occurs for a combination of factors, including operation and maintenance costs, lost power output due to blade degradation or maintenance and overall aerodynamic performance of the turbine rotor. Re-blading is typically evaluated and conducted on a project-by-project basis, taking into consideration the relevant costs and benefits. In China, the re-blading market has generated significant demand for fiberglass fabrics in recent years, primarily due to varied quality in the original blade design and manufacturing. According to the DNV GL Report, the forecast market demand for fiberglass fabrics used in wind turbine blades has assumed the re-blading to occur at the following rates, where the relevant percentages are of the new wind power installations in a given year:

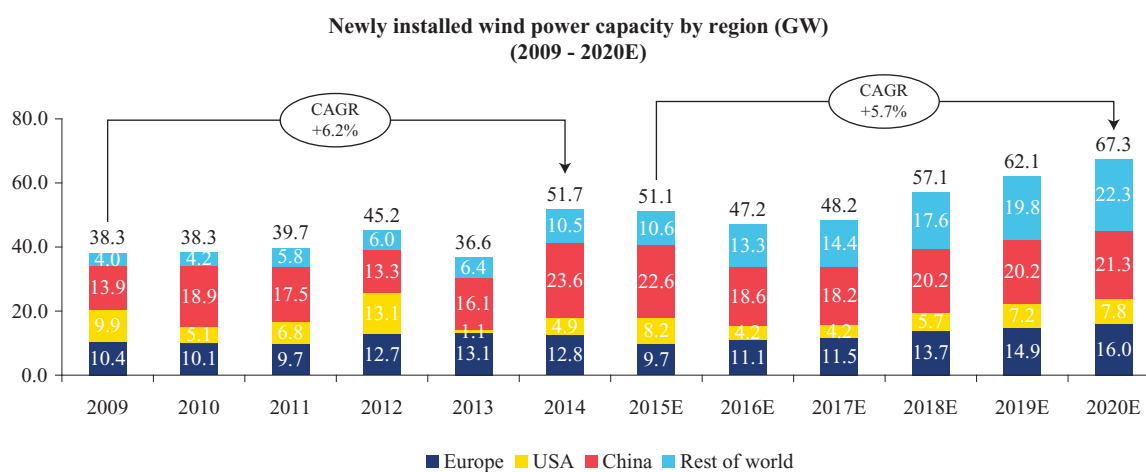
- onshore:
 - China: 8% in 2014, growing by 1% per year to 14% in 2020; and
 - Outside China: 5% in 2014, growing by 1% per year to 10% in 2019; and
- offshore
 - Europe and China: 1% in 2014, growing by 1% per year to 5% in 2018; and
 - Outside Europe and China: nil due to limited operating years.

Growth Drivers

Development of the Wind Turbine Blade Sector

Wind power technology is cost-efficient and mature compared to other types of renewable energy technologies. According to the DNV GL Report, global cumulative installed wind power capacity was 318.6 GW in 2013, accounting for 2.5% of the global electricity production during the same year, and is estimated to reach 703.5 GW in 2020, accounting for approximately 8% to 12% of the global electricity production during the same year. According to the DNV GL Report, Europe, the United States and China are the largest wind power markets in the world.

The following chart illustrates the historical (2009 to 2014) and forecast (2015 to 2020) newly installed wind power capacity by region.

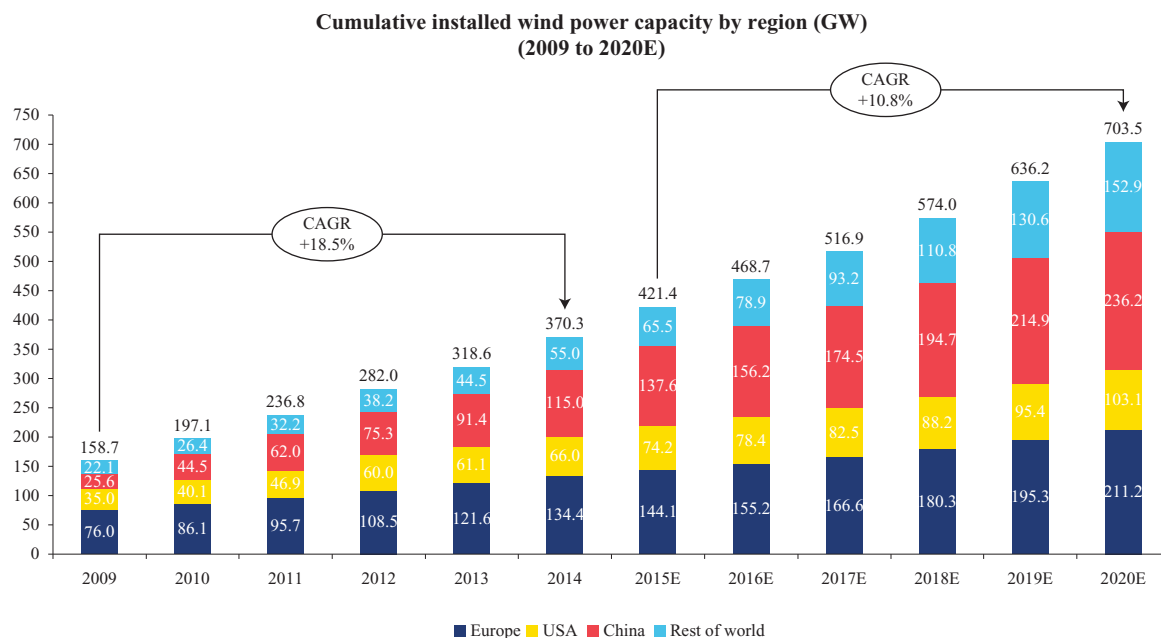


Source: DNV GL Report

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According to the DNV GL Report, the global newly installed wind power capacity increased from 38.3 GW in 2009 to 51.7 GW in 2014, with a CAGR of 6.2% during such period, and is estimated to reach 67.3 GW in 2020, with a CAGR of 5.7% from 2015 to 2020. The newly installed wind power capacity in the United States decreased by 91.6% from 2012 to 2013, and the global newly installed wind power capacity is expected to slightly fluctuate in 2016 and 2017. For the reasons driving these fluctuations, see “— Market Size and Growth Trend” above. Despite the slight fluctuations in the global newly installed wind power capacity in 2016 and 2017, the estimated global newly installed wind power capacity in each year between 2015 and 2020 is expected to be higher than the historical level in any year from 2009 to 2014.

The following chart illustrates the historical (2009 to 2014) and forecast (2015 to 2020) cumulative installed wind power capacity by region.



Source: DNV GL Report

The global cumulative installed wind power capacity grew steadily from 158.7 GW in 2009 to 370.3 GW in 2014, representing a CAGR of 18.5% during such period, and is estimated to continue increasing at a CAGR of 10.8% from 2015 to 2020, reaching 703.5 GW by the end of 2020. In particular, according to the DNV GL Report, it is estimated that the cumulative installed wind power capacity in China will reach 236.2 GW in 2020 which surpasses the target of 200 GW by 2020 as announced by the PRC government in 2013. This estimate is supported by a number of market drivers, including a favourable political climate for growth of renewables in China, a need for clean energy to combat pollution and climate change, rapid high voltage direct current transmission build-out which is expected to unlock stalled development, and a demonstrated strong wind power market in the first half of 2015.

Government Policies and Targets

The development of the global wind turbine blade sector is significantly affected by the government policies and targets, in particular, those of the United States, the European Union and China.

China. The PRC government also strongly supports the development of wind power. For example, electricity generated from wind power in China is subject to a 50% value-added tax refund. In 2013, the PRC government announced a target of 200 GW installed wind power capacity by 2020, which implies an average annual installation of over 14 GW from 2015 to 2020. On the other hand, reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or authorised before 1 January 2015 but connected

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to grid after 1 January 2016, which is estimated to result in lower new installation capacity in the short term. In addition, the northern and western parts of the PRC have good wind resources but are less populous whereas the southern part of the PRC is less windy but has greater demand for energy. This situation is currently causing increasing instances of curtailment for project development locating in windy areas in northern and western parts of the PRC. It is expected that the situation will be improved after the completion of the construction of ultra-high voltage transmission lines to carry electricity from northern to southern regions of the PRC.

For risks in relation to uncertainties or adverse changes in government investments, initiatives and policies, see “Risk Factors — Risks Relating to Industries Relevant to Our Business — If any uncertainties or adverse changes in government investments, initiatives and policies affect the wind turbine blade sector or other industries in which our customers operate, preventing such industry from sustaining its current pace of growth, our growth, profitability and future prospects could be materially and adversely affected.”

United States. The PTC program is the main scheme in the United States to incentivise the wind power installation, which is expected to drive the long-term development of the wind turbine blade sector in the United States. Due to the potential changes in its renewal status and eligibility criteria, the periodic renewal of the PTC program every two years or less may affect the newly installed capacity in the United States in a given year. When the PTC program expires with uncertainty about renewal in a given year, there could be either a significant increase or a decrease in the new installation of wind power capacity. For example, the PTC program expired in December 2012 without certainty about renewal before it was extended for one year in January 2013, resulting in 13.1 GW of newly installed capacity in 2012 in the United States, representing the highest annual new installation since 2009. The newly installed capacity in the United States, however, significantly decreased to 1.1 GW in 2013, as there was a change in the qualification requirements of the renewed PTC program under which a project would be eligible for the PTC program if its construction started prior to 1 January 2014, whereas in previous years a project had to be completed by the expiration date of the PTC program in order to be eligible. As such, there was no urgency for completing projects in 2013, although numerous projects were started in 2013 in order to qualify for the PTC program.

European Union. The European Union has a strong commitment, both in terms of government policy and public support, in developing the wind power sector. As such, the European wind power market has experienced stable growth in recent years, and such trend is estimated to continue from 2015 to 2020. In the long term, the most significant driver for the growth of the European wind turbine blade sector is energy security and reductions in carbon emissions to address concerns over climate change, which has, and is expected to continue to have, a practical influence on wind power development, depending on the level of political commitment to reductions in carbon emissions.

Supply and Demand Dynamics

Each major customer in the wind turbine blade sector typically selects and qualifies two suppliers for each main type of fiberglass fabrics, such as multi-axial fabrics and uni-directional fabrics. These customers take this approach in order to improve negotiating power for price and purchase terms by having more than one supplier, yet at the same time maintaining a bulk-purchase level to achieve high-volume prices by limiting the number of suppliers to two.

GWEC wind market forecasts

In October 2014, the Global Wind Energy Council (GWEC) published a report titled “Global Wind Energy Outlook 2014” which presented three scenarios for cumulative wind capacity in the years 2014, 2015, 2020 and 2030. For the China market, the lowest expectations were labelled as the “New Policies scenario,” referring to new Chinese National Energy Administration policies with reduced feed-in tariffs. The New Policies scenario predicts total capacity in China to reach 208 GW by the year 2020. The GWEC forecast also includes “Moderate” and “Advanced” scenarios which predicts installed capacity of 217 GW or 230 GW, respectively, by 2020. Hence, the lowest expectation from the 2014 GWEC report for cumulative installation in China is 3.8% below the Moderate scenario, and the highest expectation is 6.2% above, for a total spread of about 10%.

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Actual cumulative wind installation in China at the end of 2014 reached 115 GW, 5.5% above the most optimistic (Advanced scenario) prediction of the GWEC report. DNV GL expects cumulative capacity in China to reach more than 137 GW in 2015, which is 7.9% above the 127 GW predicted by the GWEC Advanced scenario.

Differences in forecasts reflect both variations in judgment concerning expected market developments, as well as different inputs available according to the time during which forecasts are developed. Variations between forecasts by leading companies, as well as annual adjustments to forecasts reflect the uncertainties in the wind market. Factors favouring upside scenarios for China wind capacity development include a strong government commitment to wind energy, economic and environmental benefits, and the increasing benefits realised by a growing export as well as domestic market. Downside pressures include need for transmission line development to connect windy but less-populated regions with areas of high population and energy demand, reductions in feed-in tariffs and cash-flow problems due to delays in feed-in tariffs premium payments.

Grid-Connection of Chinese Wind Projects

Historically, there has been a significant differential/lag between new installations of wind capacity and grid-connection of that capacity in the China market. In 2014, China installed 23.6 GW of new wind capacity, 18.7 GW of which was connected to the grid in 2014 (79% grid-connection in 2014). In terms of cumulative installation, the China Wind Energy Association recorded total installations of 114.76 GW by the end of 2014, with 96.37 GW grid-connected, according to the Chinese National Energy Administration (cumulative 84% through the end of 2014).

Chinese National Energy Administration targets for wind energy development as outlined in the 12th and 13th Five-Year Plans are in terms of grid-connected, not installed capacity. Basic business and economic principles suggest that a robust wind industry should include timely grid-connection of new installed capacity in order to realise the potential benefits of the related investments. However, the use of fiberglass fabric materials is directly linked to the construction of new capacity, irrespective of the timing for grid connection of that capacity.

Competitive Landscape

The following table sets forth the top five global suppliers of fiberglass fabrics used in wind turbine blades in terms of sales volume in 2014.

Rank	Name	Corporate headquarters	Approximate market share
1	SAERTEX GmbH & Co. KG	Germany	18.8%
2	Owens Corning Corporation	United States	15.7%
3	the Company	China	13.7%
4	Changzhou Hongfa Zongheng Advanced Material Technology Co., Ltd. (常州市宏發縱橫新材料科技股份有限公司)	China	12.5%
5	Jiangsu CTC Technical Fabrics Co., Ltd. (江蘇天常複合材料股份有限公司)	China	12.5%

Source: DNV GL Report

The global market of fiberglass fabrics used in wind turbine blades is relatively concentrated. In 2014, the top seven manufacturers accounted for approximately 89.5% of the total sales of the global market of fiberglass fabrics in the wind turbine blade sector. These suppliers compete on a number of bases to obtain customer certification from the manufacturers of wind turbines and blades, as the case may be, according to the key purchasing criteria of these customers. For details of the key purchasing criteria of the customers in the wind turbine blade sector, see “— Customers — Customers’ Certification Process and Purchasing Criteria” in this

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section. Among the key purchasing criteria, technical specification and consistency of quality are typically the most important criteria considered by manufacturers of wind turbines and blades. For products of similar technical specifications, the main differentiating factors are price and purchase terms, as well as the proximity with the relevant customers, which has a considerable impact on the delivery time and costs of fiberglass fabrics.

Customers

Major Customers

The major customers for fiberglass fabrics in the wind turbine blade sector are (i) manufacturers that not only manufacture blades but also assemble wind turbines and (ii) manufacturers of blades.

The following table sets forth the leading global manufacturers of wind turbines in terms of market share in 2014. Of the top five leading global manufacturers of wind turbines, Vestas Wind Systems A/S and Siemens Wind Systems A/S not only manufacture blades but also assemble wind turbines. The remaining three players' core business is assembling wind turbines, and therefore are not target customers of manufacturers of fiberglass fabrics.

Rank	Name
1	Vestas Wind Systems A/S
2	Siemens Wind Systems A/S
3	General Electric
4	Xinjiang Goldwind Science & Technology Co., Ltd. (新疆金風科技股份有限公司)
5	Enercon GmbH

Source: DNV GL Report

The following table sets forth the leading PRC-based manufacturers of wind turbines in terms of newly installed capacity in 2014. Of the top five PRC-based manufacturers of wind turbines, Guodian United Power Technology Company Ltd. (國電聯合動力技術有限公司) and Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司) not only manufacture blades but also assemble wind turbines. The remaining three players' core business is only assembling wind turbines, and therefore are not target customers of manufacturers of fiberglass fabrics.

Rank	Name
1	Xinjiang Goldwind Science & Technology Co., Ltd. (新疆金風科技股份有限公司)
2	Guodian United Power Technology Company Ltd. (國電聯合動力技術有限公司)
3	Envision Energy Co. Ltd. (遠景能源科技有限公司)
4	Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司)
5	Shanghai Electric Group Company Limited (上海電氣集團股份有限公司)

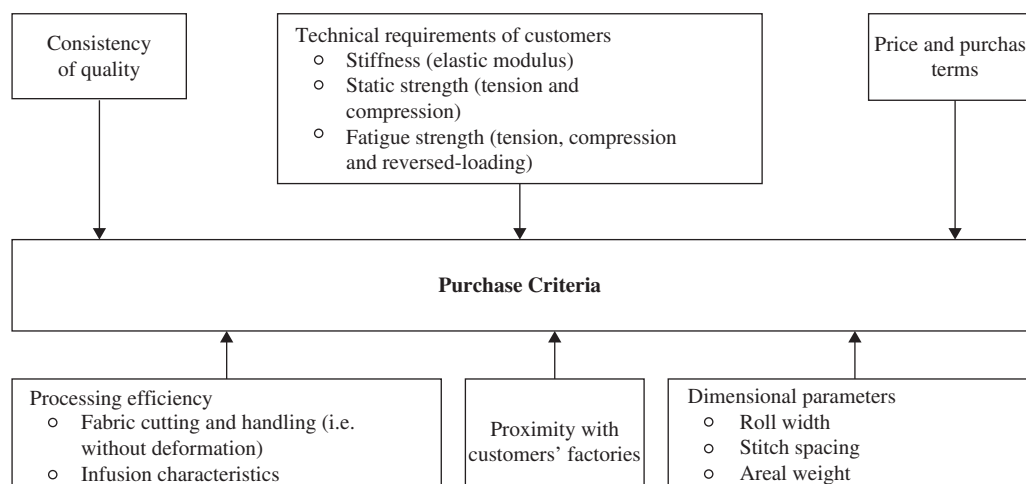
Source: DNV GL Report

Customers' Certification Process and Purchasing Criteria

Customers in the wind turbine blade sector usually have their own certification processes to select suppliers of fiberglass fabrics. Customer certification is considered to be complete when the relevant fiberglass fabrics satisfy the various designated quality and functionality tests as required by a customer and the customer places an

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order with the relevant supplier. According to the DNV GL Report, the customers in the wind turbine blade sector in general assess the criteria described in the table below during the purchase process of fiberglass fabrics.



The customer certification process is usually burdensome and time consuming and creates a significant barrier to entry for new competitors. For a specific fiberglass fabrics product, obtaining customer certification from overseas manufacturers of wind turbines and blades typically takes two to three years, and obtaining customer certification from PRC-based manufacturers of wind turbines and blades typically takes approximately six months to two years. In addition, each major manufacturer of wind turbines and blades typically selects and qualifies only two suppliers for each main type of fiberglass fabrics, thereby creating significant additional barriers for candidate suppliers to obtain the customer certification. For details, see “— Supply and Demand Dynamics.”

Historical Price of Fiberglass Fabrics

According to the DNV GL Report, the price trend of fiberglass fabrics closely follow the price of fiberglass, which is the primary raw material for fiberglass fabrics. For details of the historical price of fiberglass in the PRC market, see “— Raw Materials and Suppliers — Historical Price of Fiberglass” in this section. According to the DNV GL Report, the price of fiberglass fabrics in the PRC market decreased slowly from 2012 to 2013, remained stable from the end of 2013 to the first half of 2014, and then slightly increased from the second half of 2014 to April 2015. The recent increase in the prices of fiberglass fabrics was primarily driven by increased market demand.

The below table sets forth, for the periods indicated, the historical price of fiberglass fabrics in the PRC market.

	2012	2013	2014	April 2015
	(RMB per tonne)			
Regular fiberglass fabrics	10,000 - 13,000	9,000 - 12,000	10,000 - 13,000	12,000 - 15,000

Source: DNV GL Report

Barriers to Entry

The global market of fiberglass fabrics used in wind turbine blades is relatively concentrated due to the high barriers to entry. The barriers to entry and competitive landscape in the other sectors where fiberglass fabrics are used vary, depending on the types of fiberglass fabrics and market conditions of the particular industries.

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Barriers to market entry for fiberglass fabric manufacturers include the following:

- *Customer certification.* Certification is a necessary but time-consuming process for introducing any new type of fiberglass fabrics to customers in the wind turbine blade sector. See “— Customers — Customers’ Certification Process and Purchasing Criteria” above for details.
- *Know-how.* Know-how in the fiberglass and wind power-related fiberglass fabrics industries is a barrier to entry for new entrants. Such know-how primarily includes experience gained in the research and development and manufacturing of fiberglass fabrics, connections with major customers in the wind turbine blade sector and collaborative relationships established with fiberglass suppliers.
- *Reputation and relationship.* To ensure the safety and reliability of blades, manufacturers of wind turbines and blades worldwide generally exercise great care in reviewing the reputation and historical performance of suppliers, value long-standing suppliers whose product quality has been proven over years and maintain a time-consuming customer certification process. Manufacturers of wind turbines and blades are normally reluctant to change suppliers of fiberglass fabrics once certified, in order to maintain a stable supply of fiberglass fabrics, thereby imposing high barriers to entry.
- *Capital expenditures and equipment.* For new suppliers of fiberglass fabrics to the wind turbine blade sector, the capital expenditures of large and sophisticated stitching machines can be a significant barrier in both overseas and the PRC market.

RAW MATERIALS AND SUPPLIERS

Suppliers of Fiberglass

Fiberglass is the key raw material used in the fiberglass fabrics. The global and Asian fiberglass industry is relatively concentrated. In 2014, the top five fiberglass manufacturers worldwide and in Asia by sales volume accounted for an aggregate of approximately 61% and 68% of the respective market shares, respectively.

The following table sets forth the top five global suppliers of fiberglass in terms of sales volume in 2014.

<u>Rank</u>	<u>Name</u>	<u>Corporate headquarters</u>	<u>Approximate market share</u>
1	Owens Corning Corporation	United States	21%
2	China Jushi	China	17%
3	Chongqing Polycomp International Corporation (重慶國際複合材料有限公司)	China	9%
4	Taishan Fiberglass Company Ltd. (泰山玻璃纖維有限公司)	China	7%
5	PPG Industries, Inc.	United States	7%

Source: DNV GL Report

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The following table sets forth the top five suppliers of fiberglass in Asia in terms of sales volume in 2014.

Rank	Name	Corporate headquarters	Approximate market share
1	China Jushi	Zhejiang province, China	29%
2	Chongqing Polycomp International Corporation (重慶國際複合材料有限公司)	Chongqing, China	16%
3	Taishan Fiberglass Company Ltd. (泰山玻璃纖維有限公司)	Shandong province, China	13%
4	Taiwan Glass Ind. Corp. (台灣玻璃工業股份有限公司)	Taiwan	6%
5	Jizhong Energy Resources Co., Ltd. (冀中能源股份有限公司)	Hebei province, China	4%

Source: DNV GL Report

Historical Price of Fiberglass

The primary raw material for fiberglass fabrics is fiberglass. The market prices of fiberglass in the PRC market remained relatively stable from 2012 to 2014, with a slight decrease in 2013. The below table sets forth, for the periods indicated, the historical price of fiberglass in the PRC market.

	2012	2013	2014	April 2015
	(RMB per tonne)			
Regular fiberglass	6,200 - 8,000	6,000 - 7,500	6,200 - 8,200	6,500 - 10,000

Source: DNV GL Report

REGULATIONS

SUMMARY OF PRC LAWS

Industry Requirements

According to the Catalogue of Industries for Guiding Foreign Investment (2015) (外商投資產業指導目錄 (2015年修訂)) issued by the MOFCOM and the NDRC on 10 March 2015, which became effective on 10 April 2015, fiberglass products and special fiberglass such as low dielectric fiberglass, quartz fiberglass, high silica fiberglass, high strength and high elastic fibers, ceramic fibers, and their products are classed as “non-metallic mineral products” in the “encouraged category”.

It is allowed and encouraged to establish foreign investment enterprises in the fiberglass industry. Although there is no pre-approval procedure for the establishment of such foreign investment enterprises, the Fiberglass Industry Access Conditions (2012) (玻璃纖維行業准入條件 (2012年修訂)), issued by the Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) (“MIIT”) on 27 September 2012 and became effective on 1 October 2012, set specific access conditions to fiberglass enterprises in terms of the manufacturer layouts, technology and equipment requirements, energy consumption, environmental protection, quality and management, etc. Any new or expansion projects must meet the access conditions.

According to the relevant provisions in the Fiberglass Industry Access Conditions:

- Fiberglass products processing industry is encouraged to develop.
- Newly-established fiberglass products processing lines are required to adopt advanced high-efficient energy-saving textile technology and equipment which are forbidden to operate obsolete textile equipment that have been explicitly announced to be eliminated by the nation, nor to manufacture fiberglass products with fiberglass products produced by fiberglass machine of earthen crucible.
- In addition, high-alkali fiberglass products are forbidden to be manufactured and sold. Fiberglass Industry Access Conditions also set various standards of energy consumption for different production lines.
- To protect the environment, the specific emission standards of air pollutants and comprehensive sewage discharge standards shall be satisfied and waste fiber produced in the processes of, including but not limited to wiredrawing, winding, chopping, felting, warping, weaving, shall not be processed by landfill.
- The quality of fiberglass products shall meet relevant qualifications or come up to the standards set by the nation or the fiberglass industry.

Under the Interim Measures for the Announcement on the Industrial Access to the Fiberglass Industry (玻璃纖維行業准入公告管理暫行辦法), promulgated by the MIIT and effective as of 26 November 2012, public announcement management shall be implemented for those fiberglass enterprises. Any enterprise applying for announcement of its access to the fiberglass industry shall possess independent legal personality status, meet relevant requirements specified in the Fiberglass Industry Access Conditions and comply with relevant laws and regulations. All fiberglass manufacturing enterprises included in the announcement list shall carry out production and operation activities strictly in compliance with requirements specified in the access conditions, develop self-inspection once two years by comparison with the access conditions, fill in Annual Self-inspection Report by Enterprise under the Fiberglass Industry Access Announcement Administration and report the same to the competent industry authority at a provincial level.

Pursuant to the Guiding Catalogue Industry Structure Adjustments (2011 Version) (產業結構調整指導目錄(2011年本)) promulgated by the NDRC on 27 March 2011, revised on 16 February 2013 and became effective on 1 May 2013, the industries listed in this catalogue are divided into three categories, which are encouraged, restricted and forbidden category. Any industry that does not fall within the three categories shall be classed as “permissible”. Technology development and production of high-performance fiberglass and its products is classed as an encouraged industry.

REGULATIONS

Foreign Investment

The establishment, operation and management of corporate entities in the PRC is governed by the PRC Company Law, which was promulgated on 29 December 1993 and amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013. Under the PRC Company Law, companies are generally classified into two categories: limited liability companies and limited companies by shares. The PRC Company Law also applies to foreign-invested limited liability companies but where other relevant laws regarding foreign investment have provided otherwise, such other laws shall prevail.

The latest amendment to the PRC Company Law took effect from 1 March 2014, pursuant to which there is no longer a prescribed timeframe for the shareholders to make full capital contribution to a company, except in situations where there are requirements otherwise in other relevant laws, administrative regulations and State Council decisions. Instead, shareholders are only required to state the capital amount that they commit to subscribe in the articles of association of the company. Further, the initial payment of a company's registered capital is no longer subject to a minimum amount requirement and the business license of a company will not show its paid-up capital. In addition, shareholders' contribution of the registered capital is no longer required to be verified by capital verification agencies.

The Law of the PRC on Foreign-invested Enterprises (中華人民共和國外資企業法) (the "Law on Foreign-invested Enterprises") promulgated on 12 April 1986 and amended on 31 October 2000 forms the fundamental legal basis for the PRC government to regulate a wholly foreign-owned enterprise. According to the Law on Foreign-invested Enterprises, in order to establish a wholly foreign-owned enterprise, the investor must apply to the Ministry of Foreign Trade and Economic Cooperation under the State Council (currently, the MOFCOM) or other administrations authorised by the State Council for approval. In the event of a split, merger or other major events of change, such event must be submitted to the approving authorities for approval, and the change shall be registered with the state or local administration for industry and commerce.

According to the Rules for the Implementation of the Law of the PRC on Foreign-invested Enterprises (中華人民共和國外資企業法實施細則) promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014, foreign-invested enterprises may pay dividends only out of their accumulated profits, determined in accordance with PRC accounting standards and regulations. Foreign-invested enterprises are also required to set aside at least 10% of their respective after-tax profits each year, if any, to fund certain statutory reserve funds until the aggregate amount of such reserve funds reaches 50% of their registered capital and to allocate a discretionary portion of their respective after-tax profits to staff welfare and bonus funds, these reserves are not distributable as cash dividends.

Import and Export of Goods

The Foreign Trade Law of the PRC (2004 Revision) (中華人民共和國對外貿易法) (the "Foreign Trade Law") promulgated by the National People's Congress Standing Committee on 12 May 1994, amended on 6 April 2004 and effective as of 1 July 2004, the PRC government allows free import and export of goods and technologies, unless it is otherwise provided under the laws and administrative regulations. According to the provisions of the Foreign Trade Law, the PRC government may restrict or prohibit the import or export of relevant goods or technologies for any of the following reasons: (1) the PRC government needs to restrict or prohibit import or export in order to maintain national security, public interests or public morals; (2) the PRC government needs to restrict or prohibit import or export in order to protect the health or safety of the people, the lives or health of animals and plants, and the environment; (3) the PRC government needs to restrict or prohibit import or export in order to implement measures related to gold or silver import and export; (4) the PRC government needs to restrict or prohibit export due to short supply at home or in order to effectively protect natural resources that are likely to be exhaustible; (5) the PRC government needs to restrict export due to the limited market capacity of importing countries or regions; (6) the PRC government needs to restrict export due to the serious disorder of export; (7) the PRC government needs to restrict import in order to establish or step up establishing specific industries at home; (8) it is necessary to restrict the import of agricultural, animal husbandry and fishery products in any form; (9) the PRC government needs to restrict import in order to maintain the State's international financial status and balance of international payments; (10) the PRC government needs to restrict or prohibit import or export for other reasons in accordance with the provisions of laws and

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administrative regulations; and (11) the PRC government needs to restrict or prohibit import or export for other reasons in accordance with the provisions of international treaties and agreements that the PRC has concluded or acceded to.

The Foreign Trade Law and the Measures for the Archival Filing and Registration of Foreign Trade Operators (對外貿易經營者備案登記辦法) promulgated by the MOFCOM on 25 June 2004 require enterprises engaged in import or export of goods or technology to register with the relevant authorities in charge of foreign trade under the State Council unless otherwise provided by other laws, administrative regulations or by the relevant authorities in charge of foreign trade under the State Council.

Except for the prohibitions and restrictions on the scope of goods and techniques that may be imported or exported, certain formalities shall also be followed for the conducts in such activities. For example, the declaration of imported or exported goods and payment of duties shall be completed in accordance with the Customs Law of the PRC (中華人民共和國海關法) promulgated by the National People's Congress Standing Committee on 22 January 1987 and amended on 29 June 2013 and 28 December 2013, and foreign exchange registration and collection and payment of foreign exchange shall be made in accordance with the Regulation of the People's Republic of China on Foreign Exchange Administration (2008 Revision) (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996, amended on 14 January 1997 and subsequently amended on 5 August 2008.

Product Quality

According to the Product Quality Law of the PRC (中華人民共和國產品質量法) issued by the National People's Congress Standing Committee on 8 July 2000, producers and sellers shall establish and improve their internal system for product quality control, and strictly apply the quality standards of working, the quality responsibility system and the related check measures. Producers and seller shall be liable for product quality in accordance with this Law. The quality of a product shall undergo inspection until it proves to be up to the standards. No sub-standard product may be passed off as an up-to-standard one. The PRC government, with respect to product quality, applies a system of supervision and inspection with random checking as the main form. Products constituting potential threats to human health, to personal safety and safety of property, important industrial products which have a bearing on the national economy and the people's wellbeing, and products with quality problems as reported by consumers or relevant organisations shall be subject to random checking. Any producer or seller not being up to the relevant regulations stipulated in this law shall be fined, ordered to discontinue production or sale of products, revoked whose business licence; if a crime is constituted, criminal responsibility shall be investigated.

In accordance with relevant provisions in the Fiberglass Industry Access Conditions, the product quality of fiberglass shall reach the requirements of the State or the standards of relevant products in the industry itself.

Occupation Safety

Persuade to the Production Safety Law of the PRC (中華人民共和國安全生產法) amended on 27 August 2009 and 31 August 2014, manufacturing entities in the PRC are required to meet the relevant legal requirements, such as providing their staff with training and handbooks on production safety, and providing safe working conditions in compliance with relevant laws, rules and regulations.

Environmental Protection

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "Environmental Protection Law"), which was promulgated by the Standing Committee of the National People's Congress and amended on 24 April 2014, and became effective on 1 January 2015, establishes the legal framework for environmental protection in the PRC. The Ministry of Environmental Protection of the PRC supervises and administers the environmental protection work in the PRC, and establishes national standards for the environmental quality and discharge of pollutants. Local environmental protection bureaus are in turn responsible for the environmental protection work within their respective jurisdictions.

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The latest amendment of Environmental Protection Law became effective on 1 January 2015, pursuant to which enterprises that discharge pollutants shall take measures to prevent and control pollution and other hazards caused to the environment by waste gas, waste water, waste residues, medical wastes, dust, malodorous gases, radioactive substances, noise, vibration and optical and electromagnetic radiation generated in the course of production, construction or other activities. Enterprises that discharge pollutants shall establish an environmental protection responsibility system and specify the responsibilities of the persons-in-charge of the entities and the relevant personnel. In addition, key pollution discharging entities shall truthfully disclose the names of their major pollutants, discharge methods, emission concentration and total emissions, excessive emissions as well as the construction and operation of pollution prevention and control facilities. If an enterprise that illegally discharges pollutants will be fined and ordered to make corrections. If such enterprise refuses to do so, the administrative authorities that made the penalty decisions may, as of the following date after the order of making corrections, impose continuous punishment by day based on the original fines.

The Ministry of Environmental Protection of the PRC has formulated a series of supporting regulations to ensure the effective enforcement of the Environmental Protection Law.

On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Disclosure of Environmental Information by Enterprises and Public Institutions (企業事業單位環境信息公開辦法)(the “Measures”), which came into effect on 1 January 2015. The Measures specifies units and scope of the environmental information disclosure, disclosing methods, credit evaluation system establishment and legal liabilities. Enterprises and public institutions shall promptly and truthfully disclose their environmental information. The Measures require the environmental protection authorities to draw up a list of key pollutant-discharging units and supervise and guide such units in terms of environmental protection. As to the content to disclosure, the environmental protection authorities are liable to supervise the disclosed contents according to the Measures.

On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Imposition of Consecutive Punishments on a Daily Basis by Environmental Protection Authorities (環境保護主管部門實施按日連續處罰辦法), which came into effect on 1 January 2015. The Measures specifies basis, principle, scope, procedure and method of calculating as to the consecutive punishments on a daily basis. The Measures lists typical situations of illegal discharge of pollutants: 1. discharging pollutants in excess of the State or local standards, or total volume control quotas of major pollutants; 2. discharging pollutants through concealed conduits, seepage well, seepage pit, perfusion or alteration and forgery of monitoring data or improper operation of pollution prevention and control facilities or other means that evade regulation; 3. discharging pollutants prohibited by laws and regulations; 4. illegal dumping hazardous wastes; 5. other acts of discharging pollutants in violation of the laws. When the competent environmental protection departments at or above the county level impose the consecutive punishments on a daily basis, certain conditions must be complied with, i.e. polluters illegally discharging pollutants, and thus they are fined and ordered to make corrections, but refuse to correct.

On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Imposition of Sealing up and Detaining by Environmental Protection Authorities (環境保護主管部門實施查封、扣押辦法), which came into effect on 1 January 2015. The Measures specify the definition, scope of application, concrete object of sealing up and detaining, and the implementing procedures such as inspection, evidence collection, examination and approval, penalty decision enforcement, implementing period, retention and release.

On 19 December 2014, the Ministry of Environmental Protection promulgated the Measures for the Imposition of Restrictions on Production and Cessation of Production for Rectification by Environmental Protection Authorities (環境保護主管部門實施限制生產、停產整治辦法), which came into effect on 1 January 2015. Environmental protection authorities at or above the county level shall take measures such as restricting production, suspending production for rectification and severely disciplining the pollutants discharging exceeding the pollutant discharge standard or the controlling indicators for total emission volume of major pollutants.

The PRC government successively promulgates a series of laws and regulations with regard to the discharge of atmospheric pollution, waste water, solid waste pollution and noise, including the Law of the PRC

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on the Prevention and Control of Atmospheric Pollution (2000 Revision) (大氣污染防治法) promulgated by the National People's Congress Standing Committee on 5 September 1987, revised on 29 August 1995 and 29 April 2000 and came into effect on 1 September 2000, the Law of PRC on Prevention and Control of Water Pollution (2008 Revision) (水污染防治法) promulgated by the NPC Standing Committee on 11 May 1984, revised on 15 May 1996 and 28 February 2008 and came into effect on 1 June 2008, Law of the PRC on Prevention and Control of Pollution From Environmental Noise (環境噪聲污染防治法) promulgated by the National People's Congress Standing Committee on 29 October 1996 and came into effect on 1 March 1997 and the Law of the PRC on Prevention and Control of Solid Waste Pollution (固體廢棄物污染環境防治法) promulgated by the National People's Congress Standing Committee on 30 October 1995, amended on 29 December 2004 and came into effect on 1 April 2005. Pursuant to the aforesaid regulations, where any project under construction, renovation or expansion might discharge atmospheric and water pollution or cause any environmental noise and solid waste, such project must conform to the regulations of the State governing environmental protection, apply for pollutant discharge permit and discharge pollutant in accordance with the regulations.

Pursuant to relevant provisions in the Fiberglass Industry Access Conditions, waste fiber produced in the processes of, including but not limited to wiredrawing, winding, chopping, felting, warping, weaving, shall be recycled instead of being processed in landfill.

On 29 November 1998, the State Council promulgated the Regulations on the Administration of Environmental Protection of Construction Project (建設項目環境保護管理條例). On 28 October 2002, the National People's Congress Standing Committee adopted the Law on Appraising of Environment Impact of the PRC (中華人民共和國環境影響評價法), which became effective on 1 September 2003. According to the aforesaid laws, the construction units responsible for the construction projects must submit corresponding environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval and obtain approvals from such administrative departments of environmental protection before they commence construction. Environmental protection facilities shall be designed, built and commissioned together with the whole construction project, no permission shall be given for a construction project to be commissioned until its environmental protection facilities have been examined and assessed and determined to be up to standard by the relevant department of the environmental protection administration that is responsible for examining and approving the environmental impact statement of the applicant.

Taxation

Enterprise Income Tax

The EIT Law and Implementing Rules for the Enterprise Income Tax law of the PRC (中華人民共和國企業所得稅法實施條例) which came into effect on 1 January 2008 replaced the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) and the Provisional Regulations of the PRC On Enterprises Income Tax (中華人民共和國企業所得稅暫行條例). The EIT Law applies a unified EIT rate of 25% to both domestic enterprises and foreign-invested enterprises and gives different transitional periods and measures. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in the PRC in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in the PRC, or (ii) have no entities or premises but have income generated from the PRC. According to the EIT Law, foreign invested enterprises in the PRC are subject to enterprise income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall pay enterprise income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 20% on its income sourced from the PRC.

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Value-Added Tax

The Interim Regulation of the PRC on Value-Added Tax (2008 Revision) (中華人民共和國增值稅暫行條例), promulgated by the State Council and amended on 5 November 2008, came into effect on 1 January 2009. In accordance with this regulations and the Implementing Rules of the Interim Regulations on Value-Added Tax of the PRC (中華人民共和國增值稅暫行條例實施細則) which were promulgated by the Ministry of Finance and the SAT on 15 December 2008 and were amended and came into effect on 1 November 2011, value-added tax is imposed on goods sold in or imported, and provision of processing, repair and replacement service within the territory of the PRC. The typical value-added rate is 17%.

Dividend Tax

According to the EIT Law, dividends paid by foreign-invested companies to their foreign investors that are non-resident enterprises as defined under EIT Law are subject to withholding tax at a rate of 10%, unless otherwise provided in the relevant tax agreements entered into with the central government of the PRC. According to the Specification of Arrangements between the Mainland of China and the Hong Kong Special Administrative Region on Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排) (“Tax Arrangements”) executed and agreed by the PRC government and Hong Kong, where the beneficial owner is a company directly owning at least 25% of the capital of the company which pays the dividends, the tax so charged shall not exceed 5% of the gross amount of the dividends. In any other case, the tax so charged shall not exceed 10% of the gross amount of the dividends. According to the Notice on How to Understand and Define the “Beneficial Owner” Stipulated in the Tax Arrangements (關於如何理解和認定稅收協定中“受益所有人”的通知) promulgated by the State Administration of Taxation on 27 October 2009, the “beneficial owner” shall be the person entitled to be the ownership and control of the rights and property incurred from income or income. The “beneficial owner” may be an individual, a company or any other body of persons. The agent, tube company shall be excluded from “the beneficial owner”. The Notice further stipulated, the conduit company means the company established for the purpose of avoiding or reducing tax, transfer or accumulation of profit. Such company registered in their countries shall be only on satisfaction of the basic organisation form required by the applicable laws and regulations, not involving any manufacture, marketing, management and any business activities.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關的通知), which was promulgated by the State Administration of Taxation (the “SAT”) and became effective on 20 February 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident reaches the percentages specified in the tax agreement; and (iii) the equity interests of the Chinese resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends reach a percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)), which came into effect on 1 October 2009, if a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the preferential tax treatments under the tax agreements, it shall submit an application for approval to the competent tax authority.

Export Tax Rebate

For the purpose of avoiding double taxation on exported commodities, the PRC government practices the tax rebate system in connection with foreign trade export commodities, that is, paying back the VAT input tax to the enterprises on the basis of different product tax rebate. According to the Circular of the State Administration of Taxation on Issuing the Measures for the Administration of Tax Refund (Exemption) of Exported Goods (For Trial Implementation) (出口貨物退(免)稅管理辦法(試行)) promulgated by the State Administration of Taxation on 16 March 2005 and came into effect on 1 May 2005, as regards proprietary goods exported by an exporter or

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goods exported thereby upon entrustment, except as otherwise specified, after export customs declaration and financial accounting for sales, the exporter may report to the office of the State Taxation Bureau at the domicile for the approval of rebate or exemption of VAT or consumption tax on the strength of relevant vouchers. The scope of tax rebate (exemption) of exported goods, tax rebate rate and tax rebate (exemption) methods shall be implemented in accordance with relevant provisions of the PRC.

On 19 June 2007, the Notice of the Ministry of Finance and the State Administration of Taxation on Lowering the Export Rebate Rates for Some Commodities (財政部、國家稅務總局關於調低部分商品出口退稅率的通知[2007]90號) lowered the export rebate rates for fiberglass and fiberglass products from 13% to 5% since 1 July 2007.

Labour and Employment

The Labour Law of the PRC (中華人民共和國勞動法) promulgated by the National People's Congress Standing Committee on 5 July 1994 and came into effect on 1 January 1995 and amended on 27 August 2009, together with the relevant laws and regulations, emphasises issues of working hours, rest and vacations, and the principle of distribution of wages and equal pay for equal work, establishes a system of guaranteed minimum wages and provides special protection to female staff and juvenile workers.

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) promulgated by the National People's Congress Standing Committee on 29 June 2007 and revised on 28 December 2012 is applicable where the employers establish labour relationships with employees through concluding, performing, modifying, revoking or terminating labour contracts with them. Labour contracts in written form shall be executed to establish labour relationship between employees and employers, and the labour contracts consist of fixed-term labour contracts, open-ended labour contracts and labour contracts that expire upon completion of given jobs. Where the employer fails to conclude a written labour contract with an employee for more than a month but less than a year from the date of employment, it shall pay the worker two times his salary for each month. In addition, the conditions of concluding open-ended labour contracts and the payable financial compensation undertaken by employers shall also be emphasised in this law.

Social Insurance

According to the Labour Law of the PRC (中華人民共和國勞動法), the Decisions of the State Council on Establishing the Unified Basic Pension Insurance System for the Employees of Enterprises (國務院關於建立統一的企業職工基本養老保險制度的決定), issued on 16 July 1997, the Decisions of the State Council on Establishing the Basic Medical Insurance System for the Urban Employees (國務院關於建立城鎮職工基本醫療保險制度的決定), promulgated on 14 December 1998, the Regulation on Work-related Injury Insurance (工傷保險條例), issued on 27 April 2003 and amended on 20 December 2010, the Regulation on Unemployment Insurance (失業保險條例), promulgated on 22 January 1991, the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), issued on 14 December 1994, the Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), issued on 19 March 1999, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), issued on 22 January 1999, and the Regulations on the Administration of Housing Fund (住房公積金管理條例), issued on 24 March 2002 and amended on 24 March 2002, the employing units and employees must participate in social insurance and pay social insurance premiums in accordance with the laws. The employing units responsible for payment shall establish and complete the registration of social insurance and housing fund, and pay fees on basic pension insurance, work-related injury insurance, maternity insurance, basic medical insurance, unemployment insurance and housing fund for the employees.

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) promulgated on 28 October 2010 and came into effect on 1 July 2011, the PRC government establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth, and emphasizes the legal obligations and responsibilities of units to pay social insurance premiums for employees.

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Housing Fund

According to the Regulation on the Administration of Housing Accumulation Funds (2002 Revision) (住房公積金管理條例) amended by the State Council on 24 March 2002, a unit shall go to the housing fund management centre to undertake registration of payment and deposit of the housing fund. A newly established unit shall go to the housing fund management centre to undertake housing fund payment and deposit registration within 30 days from the date of its establishment, and go to a commissioned bank to go through the formalities of opening housing fund accounts on behalf of its staff and workers within 20 days from the date of the registration with the verified documents of the housing fund management centre. When employing new staff or workers, the units shall undertake housing fund payment and deposit registration at a housing fund management centre within 30 days from the date of the employment, and shall go through the formalities of opening or transferring housing fund accounts of staff and workers at a commissioned bank with the verified documents of the housing fund management centre. Where, in violation of the provisions of these Regulations, a unit fails to undertake payment and deposit registration of housing fund or fails to go through the formalities of opening housing fund accounts for its staff and workers, the housing fund management centre shall order it to go through the formalities within a prescribed time limit; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 nor more than RMB50,000 shall be imposed. Where, in violation of the provisions of these Regulations, a unit is overdue in the payment and deposit of, or underpays, the housing fund, the housing fund management centre shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

Foreign Exchange Control

Pursuant to the Regulation of the PRC on Foreign Exchange Administration (2008 Revision) (中華人民共和國外匯管理條例) promulgated by the State Council in January 1996 and came into effect in April 1996, and subsequently amended on 5 August 2008, the payments, including the trade balance, interests and dividends incurred, in foreign exchange and the transferring of foreign exchange for current international transactions shall not be restricted, provided that such payments shall be based on truthful and legal transactions. If foreign exchange receipts for capital account transactions are to be retained at or sold to financial institutions engaged in settlement or sale of foreign exchange, the retaining or sale shall be subject to approval of foreign exchange control organs, except those not subject to approval as specified by the PRC. Domestic institutions or individuals that make direct investment abroad or are engaged in distribution or deal of overseas valuable securities or derivative products or borrow external debts or provide external guaranty or any other capital account transactions shall be subject to filing application or approval in accordance with the relevant provisions of the foreign exchange control department of the State Council.

According to the Notice of the General Affairs Department of the State Administration of Foreign Exchange on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (關於完善外商投資企業外匯資金支付結匯管理有關業務操作問題的通知) promulgated by the SAFE on 28 August 2009, the RMB fund from the settlement of foreign currency capital of a foreign-invested enterprise shall be used within the business scope as approved by the examination and approval authorities, and shall not be used for domestic equity investment unless otherwise provided. Except foreign-invested real estate enterprises, no foreign-invested enterprise shall use the RMB fund from the settlement of foreign currency capital to purchase domestic real estate for any purpose other than its own use. When using the RMB fund from the settlement of foreign currency capital for any securities investment, a foreign-invested enterprise shall follow relevant provisions of the state.

SAFE Circular No. 37

According to Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Overseas Investment Financing and Inbound Investment via Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the "SAFE Circular No. 37") promulgated on 4 July 2014 by the SAFE, domestic resident natural persons or domestic resident legal persons shall, before contributing the domestic and overseas lawful assets or interests to a special purpose vehicle, apply

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to the competent local branch of the SAFE for going through the procedures for foreign exchange registration of overseas investments. Pursuant to the SAFE Circular No. 37, the domestic resident natural persons include those individuals who hold PRC citizenship and those individuals who have no legal identity within the territory of China but reside habitually in the PRC for the purpose of economic interests.

As of the date of this prospectus, to the best of our knowledge, our PRC resident shareholders with offshore investments in our group had registered with the SAFE as to their offshore investments in accordance with the SAFE Circular No. 37.

M&A Rules

Pursuant to the Regulation on the Acquisitions of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“M&A Rules”) promulgated by the MOFCOM, the State-owned Assets Supervision and Management Committee under the State Council, the State Administration of Industry and Commerce, the State Administration of Taxation, the CSRC and the SAFE and became effective on 8 September 2006 and subsequently revised on 22 June 2009, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchase and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from the MOFCOM is required.

Hengshi Fiberglass was established as a foreign-invested enterprise other than a domestic company before the implementation date of the M&A Rules. No merger and acquisition as defined in the M&A Rules occurred during the survival period of Hengshi Fiberglass. Therefore, the M&A Rules shall not be applicable to our Company.

Land Property

According to the Constitution of the PRC (中華人民共和國憲法) amended by the National People’s Congress and became effective on 14 March 2004, land in the cities is owned by the state. The Land Administration Law of the PRC (中華人民共和國土地管理法) was promulgated by the Standing Committee on 25 June 1986, became effective on 1 January 1987 and was amended on 29 December 1988, 29 August 1998 and 28 August 2004. The Regulations for the Implementation of the Land Administration Law of the PRC (中華人民共和國土地管理法實施條例) were promulgated by the State Council on 27 December 1998 and became effective on 1 January 1999 and amended on 29 July 2014(collectively, the “Land Administration Law”). Under the Land Administration Law, the national government implements a land registration and certification system. Lawfully registered land ownership and land use rights are protected by law and may not be infringed upon by any units or individuals. Further pursuant to the Interim Regulations of the PRC Concerning the Assignment and Transfer of the Right to the Use of the State-owned Land in the Urban Areas (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), issued on 19 May 1990, any company, enterprise, other organisation and individual within or outside of the PRC may, unless otherwise provided by law, obtain the right to the use of the land and engage in land development, utilisation and management in accordance with the provisions of this regulations.

In accordance with the relevant regulations, the right to the use of the land may be obtained by reaching an agreement through consultations and by invitation to bid or by auction. The user of the land shall signed the contract for assigning the right to the use of the land with the land administration departments (“assigning party”), and pay the total amount of the assignment fee thereof within 60 days of the signing of the contract, failing which, the assigning party shall be entitled to terminate the contract and may claim compensation for breach of contract. After paying the total amount of the fee for the assigning of the right to the use of the land, the land user shall go through the registration thereof, obtain the certificate for land use and accordingly the right to the use of the land in accordance with the relevant provisions.

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According to the Property Law of the PRC (中華人民共和國物權法) promulgated by the National People's Congress on 16 March 2007, the creation, alternation, transfer or extinction of the property right of the immovable shall become valid upon registration according to law, unless otherwise provided for by law. The register of the immovable kept by the registration authority provides the basis for the attribution and contents of the property right. The right attribution certificate of the immovable is the proof that the obligee is entitled to the property right of the said immovable.

Intellectual Property

According to the Patent Law of the PRC (中華人民共和國專利法) which was promulgated on 12 March 1984 and came into effect on 1 April 1985 and was subsequently amended on 4 September 1992, 25 August 2000 and 27 December 2008 and the Implementing Rules of the Patent Law of the PRC (中華人民共和國專利法實施細則) amended by the State Council on 9 January 2010, patent protection is divided into three categories: invention patent, utility model patent and design patent. Invention patent and utility models for which patent rights are granted shall be of novelty, creativity and practical applicability. Patent rights shall not be granted for scientific discoveries, rules and methods for intellectual activities, methods for the diagnosis or treatment of diseases, animal or plant varieties, substances obtained by means of nuclear transformation and designs that are mainly used for marking the pattern, colour or combination of these two of prints. The duration of the invention patent right shall be 20 years and that of the utility model patent right or design patent right shall be 10 years, commencing from the date of application. Unless otherwise specified by the Law, any exploitation of a patent by the third party shall be approved or authorised by the patentee, otherwise, that is, the patent right of the patentee is infringed. If a dispute arises as a result of such infringement, the dispute shall be settled through negotiation by the parties. If the parties are not willing to negotiate or negotiation fails, the patentee or interested parties may file an action with the people's court, and may also request the department of the administration of patent-related work to handle the dispute.

According to the Trademark Law of the PRC (中華人民共和國商標法) promulgated by the National People's Congress Standing Committee on 23 August 1982 and came into effect on 1 March 1983 and was subsequently amended on 22 February 1993, 27 October 2001 and 30 August 2013 and the Implementing Regulations of the Trademark Law of the PRC (中華人民共和國商標法實施條例) promulgated by the State Council on 3 August 2002 and amended on 29 April 2014, natural persons, legal persons, or other organisations that need to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select, or distribute shall apply to the Trademark Office for trademark registration. Trademarks registered upon verification and approval of the Trademark Office are registered trademarks, and a trademark registrant shall be entitled to the exclusive right to use the registered trademark. A registered trademark shall be valid for ten years, commencing from the date of registration approval. To assign a registered trademark, the assignor and the assignee shall enter into an assignment agreement, and shall jointly file an application with the Trademark Office. A trademark registrant may licence its registered trademark to another party by entering into a trademark licence contract. The licensor shall supervise the assurance of the quality of the licencees' goods bearing the licensor's registered trademark. The licensee shall ensure the quality of their goods on which the registered trademark is used.

SUMMARY OF EGYPTIAN LAWS

In Egypt, a number of government authorisations and licences are required in connection with the establishment and operation of factories, such as the approval of the Industrial Development Authority in Egypt, membership with the Egyptian Chamber of Textile Industries, and a temporary certificate from the Ministry of Trade and Industry with its registration in the Industrial Register in Egypt.

In respect of product liabilities, the seller's liability would be based on contract. The seller implicitly warrants that the sold item is free from any defect. A contractual relationship between the parties would block a claim in tort. In addition, there are no restrictions on foreign ownership of the share capital of Egyptian companies. However, there are certain business activities, such as commercial agency and importation of goods, which are legally reserved for entities owned either solely or mostly by Egyptian nationals. None of these activities are part of our Company's scope of activities.

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OVERVIEW

The Company's history dates back to 7 September 2000, when Tongxiang Hengshi Fiber Foundation Company Limited ("Hengshi Fiberglass") was established pursuant to the approval of the Jiaxing Municipal Foreign Economic Relations and Trade Commission. On the same day, the Jiaxing City Industry and Commerce Administration issued a business license to Hengshi Fiberglass, and Hengshi Fiberglass was registered in the Tongxiang Economic Development Zone with a registered capital of USD3,100,000. Tongxiang Hengshi Fiber Foundation Company Limited changed its name to Zhenshi Group Hengshi Fiberglass Fabric Co., Ltd on 9 January 2008, and again to its current name, Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. on 17 April 2015.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 February 2015. As part of the Reorganisation, on 15 April 2015, Huajin Capital acquired 60% of the shares of the Company from Zhenshi and 40% of the shares of the Company from Fame Success Investments Limited. Following the Reorganisation, the Company indirectly holds all the shares of Hengshi Fiberglass.

As at the Latest Practicable Date, each of Huachen Investment Limited, Huakai Investment Limited, Trade Power Investment Limited and Joyfar Limited, all of which were incorporated in the British Virgin Islands, held approximately 43.95%, 16.05%, 30% and 10% of the total issued share capital of the Company respectively, as investment holding companies for their respective beneficial owners as set out in the diagram on page 78. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), each of Huachen Investment Limited, Huakai Investment Limited, Trade Power Investment Limited and Joyfar Limited will hold approximately 32.96%, 12.04%, 22.5% and 7.5% of the total issued share capital of the Company, respectively.

BUSINESS MILESTONES

The following sets forth significant business developments and milestones of our businesses.

- 2000 : Hengshi Fiberglass was established.
- 2008 : Hengshi Fiberglass was awarded the Supplier of the Year award by Vestas.
- 2009 : Hengshi Fiberglass was awarded the High and New Technology Enterprise by the Zhejiang Provincial Department of Science and Technology.
- 2010 : Hengshi Fiberglass was awarded the Famous Brand Product of Zhejiang Province by the Zhejiang Provincial Bureau of Quality and Technology Supervision.
- 2014 : Hengshi Fiberglass was awarded the Supplier of the Year Award by Vestas.
- 2014 : Hengshi Fiberglass established a factory in Egypt for the production of various types of fiberglass products (fiberglass threads, fabrics and assembled roving).
- 2015 : The Company was incorporated in the Cayman Islands to be the ultimate holding company of the Group and the Reorganisation was carried out.

HISTORY OF HENGSHI FIBERGLASS

The shareholding of Hengshi Fiberglass at its date of establishment is set out below:

Shareholder	Registered capital	Percentage
	(in USD)	
Tang Hsin-hua	3,100,000	100.00%
Total	<u>3,100,000</u>	<u>100.00%</u>

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The initial registered share capital of US\$3,100,000 was paid into Hengshi Fiberglass in five phases, as set out below:

Paid-in capital term	Paid-in capital	Registered capital (in USD)	Percentage of total paid-in capital
First phase (29 December 2000)	US\$475,000	3,100,000	15.32%
Second phase (8 June 2001)	US\$725,000	3,100,000	38.71%
Third phase (29 October 2002)	US\$900,000	3,100,000	67.74%
Fourth phase (31 July 2003)	US\$303,107.78	3,100,000	77.52%
Fifth phase (18 December 2003)	US\$696,892.22	3,100,000	100.00%

Transfer of equity interests by the original shareholder of Hengshi Fiberglass

Since its establishment in 2000, Hengshi Fiberglass has been engaged in the manufacture of fiberglass fabrics. From 2000 to 2003, Hengshi Fiberglass recorded losses. In 2004, Mr. Tang Hsin-hua invited Mr. Zhang Yuqiang, who had extensive working experience in the fiberglass industry, to invest in and manage the business of Hengshi Fiberglass with a view to turning it round. Mr Tang Hsin-hua entered into an equity transfer agreement with Zhejiang Tongxiang Zhenshi Company Limited, which was controlled by Mr. Zhang Yuqiang, on 19 January 2004 and transferred 60% of the equity interests in Hengshi Fiberglass to Zhejiang Tongxiang Zhenshi Company Limited. This transfer was approved by the Zhejiang Tongxiang Economic Development Zone Management Committee in its Approval Number [2004] 76 (桐開管 [2004] 76號) on 9 March 2004.

Immediately after the transfer, the shareholders of Hengshi Fiberglass were as follows:

Shareholder	Registered capital (in USD)	Percentage
Zhejiang Tongxiang Zhenshi Company Limited ⁽¹⁾	1,860,000	60.00%
Tang Hsin-hua	1,240,000	40.00%
Total	<u>3,100,000</u>	<u>100.00%</u>

Note:

- (1) Zhejiang Tongxiang Zhenshi Company Limited changed its name to Zhenshi Group Company Limited on 6 July 2004 and then to Zhenshi Holding Group Co., Ltd. in February 2008.

Mr Tang Hsin-hua entered into an equity transfer agreement with Fame Success Investments Limited on 22 November 2007 and transferred 40% of the equity interests in Hengshi Fiberglass to Fame Success Investments Limited. This transfer was approved by the Zhejiang Tongxiang Economic Development Zone Management Committee in its Approval Number [2007] 285 (桐開管 [2007] 285號) on 11 December 2007.

As a result of the transfer and following increases in registered share capital by way of cash and asset injection, the shareholders of Hengshi Fiberglass on 2 March 2015 were as follows:

Shareholder	Registered capital (in USD)	Percentage
Zhenshi Holding Group Co., Ltd	44,208,000	60.00%
Fame Success Investments Limited	29,472,000	40.00%
Total	<u>73,680,000</u>	<u>100.00%</u>

PRE-IPO INVESTMENT

On 2 March 2015, Tang Hsin-hua and Joyfar Limited entered into a share purchase agreement, pursuant to which Joyfar Limited acquired a 25% interest in Fame Success Investments Limited, for a consideration of US\$10,146,757. Joyfar Limited is a wholly-owned subsidiary of Top Way Alliance Limited, which is in turn wholly-owned by Mr. Fang Yan Zau Alexander (“Mr. Fang”). Following the acquisition of shares by Joyfar Limited, Mr. Fang owns an effective 10% equity interest in the shares of Hengshi Fiberglass.

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Principal terms of the pre-ipo investment by Joyfar Limited

Set out below are the principal terms of the pre-ipo investment by Joyfar Limited:

Vendor	:	Tang Hsin-hua
Purchaser	:	Joyfar Limited
Date of investment	:	2 March 2015
Amount of consideration paid	:	US\$10,146,757
Payment date of consideration	:	2 March 2015
Cost per share in the Company (Note 1)	:	US\$0.14 (on a see-through basis)
Basis of determination of the consideration	:	Based on arm's length negotiations between Joyfar Limited and Tang Hsin-hua after taking into consideration the timing of the subscription and the illiquidity of the Shares as a private company when the share purchase agreement was entered into.
Discount to the Offer Price	:	A discount of approximately 52.3% to the midpoint of the indicative Offer Price range of HK\$1.80 to HK\$2.60, on the basis of our enlarged share capital immediately upon completion of the Global Offering.
Shareholding in the Company after completion of the Global Offering (assuming no exercise of the Over-allotment Option)	:	7.5%
Lock-up	:	None
Special rights	:	None

Note 1: Based on the amount of consideration paid by Joyfar Limited, divided by the number of Shares to be held by Joyfar Limited upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Information regarding Joyfar Limited

Joyfar Limited is an investment company and a wholly-owned subsidiary of Top Way Alliance Limited, which is wholly-owned by Mr. Fang. The Shares held by Joyfar Limited will be counted as part of the Shares held by the public upon completion of the Global Offering.

After the Reorganisation and completion of the Global Offering (assuming the Over-allotment Option is not exercised), Joyfar Limited will hold 7.5% of the Shares of the Company, therefore the Shares held by Joyfar Limited will be counted towards the public float.

The Directors of the Company are of the view that the Company can benefit from the commitment of Mr. Fang and Joyfar Limited to the Company, and can leverage on their local knowledge and network in the PRC to enhance the strategic business model of the Company.

Sole Sponsor's Confirmation

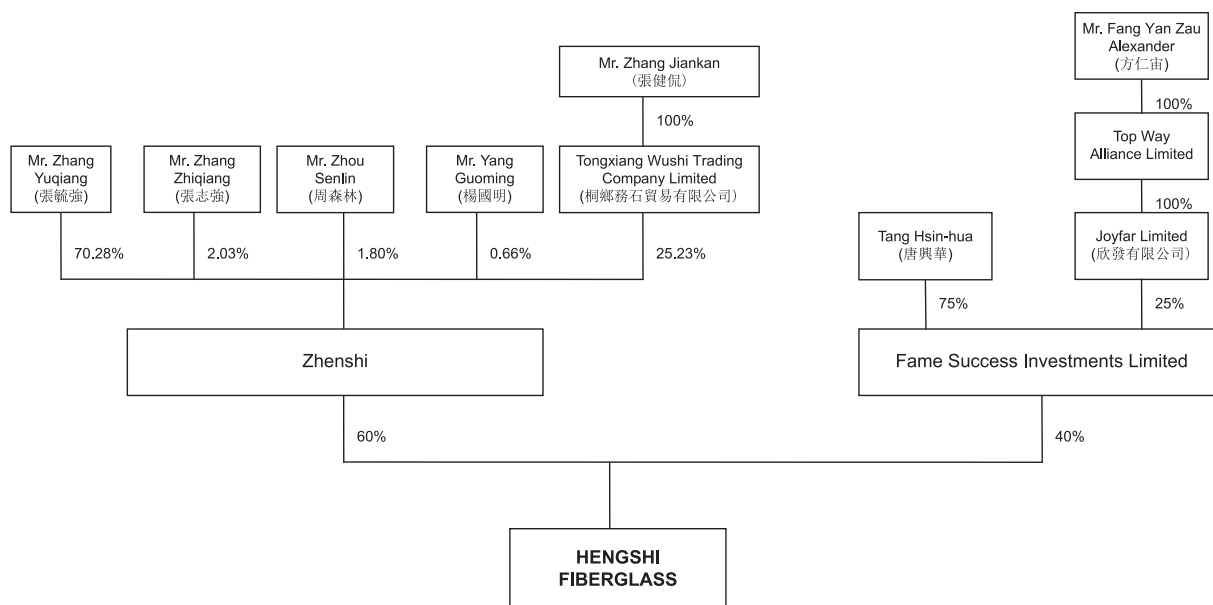
The Sole Sponsor has determined that the terms of the pre-ipo investment by Joyfar Limited are on normal commercial terms and confirm that the pre-ipo investment by Joyfar Limited is in compliance with the interim guidance on pre-ipo investments issued by the Stock Exchange on 13 October 2010 and the guidance letters issued by the Stock Exchange on 25 October 2012.

REORGANISATION

In preparation for the listing of the Company, the Group underwent several Reorganisation steps in order to establish an offshore and onshore shareholding structure through which the Company would hold the entire equity interest in Hengshi Fiberglass.

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Set out below is the corporate structure of the Group immediately prior to the Reorganisation:



Incorporation of the Company

On 23 February 2015, the Company was incorporated in the Cayman Islands as an exempted company under the Cayman Islands law to be the ultimate holding company of the Group. The initial authorised share capital of the Company was US\$50,000.00 divided into 50,000 shares of US\$1.00 each nominal value. On 23 February 2015, 94.58 shares were allotted and issued as fully paid to Huachen Investment Limited representing 94.58% of the Company and 5.42 shares were allotted and issued as fully paid to Huakai Investment Limited representing 5.42% of the Company.

Pursuant to share transfer forms between Huachen Investment Limited and each of Huakai Investment Limited, Trade Power Investment Limited and Joyfar Limited dated 31 March 2015, Huachen Investment Limited transferred, for nominal consideration, 10,632 shares to Huakai Investment Limited, 30 shares to Trade Power Investment Limited and 10 shares to Joyfar Limited. Upon completion of the share transfers, Huachen Investment Limited, Huakai Investment Limited, Trade Power Investment Limited and Joyfar Limited owned 43.95%, 16.05%, 30% and 10% of the shares of the Company respectively.

Incorporation of intermediate holding subsidiaries of the Company

Huaxu Investment Limited

On 4 March 2015, Huaxu Investment Limited was incorporated under the laws of the British Virgin Islands as an investment holding company. All the issued share capital of Huaxu Investment Limited was allotted and issued to the Company on 6 March 2015.

Huajin Capital Limited

On 20 March 2015, Huajin Capital Limited was incorporated as a limited liability company in Hong Kong and all the issued share capital of Huajin Capital Limited was allotted and issued to Huaxu Investment Limited on 11 March 2015.

Incorporation of corporate shareholders of the Company

Huachen Investment Limited

On 6 February 2015, Huachen Investment Limited was incorporated under the laws of the British Virgin Islands as an investment holding company and all its issued share capital was allotted and issued to Mr. Zhang Yuqiang upon incorporation.

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 1 April 2015, Mr. Zhang Yuqiang transferred 2.77%, 0.90% and 0.37% equity interests in Huachen Investment Limited to Mr. Zhang Zhiqiang, Mr. Yang Guoming and Mr. Zhou Senlin respectively.

Huakai Investment Ltd

On 6 February 2015, Huakai Investment Ltd was incorporated under the laws of the British Virgin Islands as an investment holding company and all its issued share capital was allotted and issued to Mr. Zhang Jiankan.

Trade Power Investment Limited

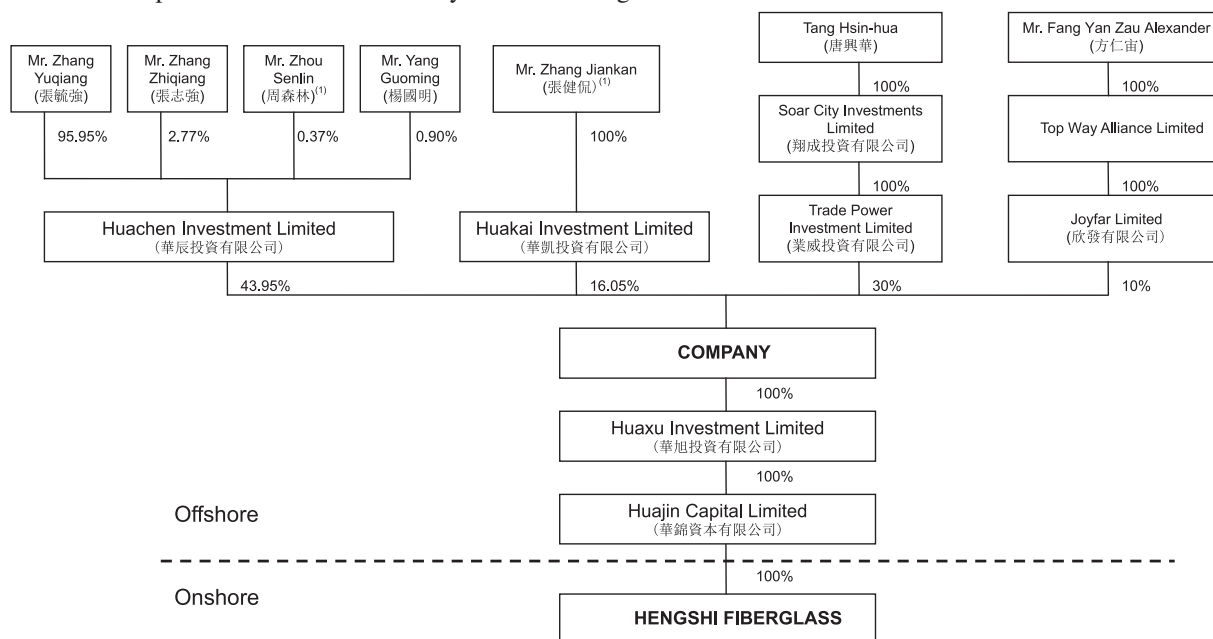
On 13 February 2015, Trade Power Investment Limited was incorporated under the laws of the British Virgin Islands as an investment holding company and all its issued share capital was allotted and issued to Soar City Investments Limited, which is wholly-owned by Mr. Tang Hsin-hua.

Acquisition of Hengshi Fiberglass by Huajin Capital Limited

On 15 April 2015, Zhenshi and Fame Success Investments Limited entered into a share purchase agreement with Huajin Capital Limited, pursuant to which Huajin Capital Limited acquired 60% and 40% interest in Hengshi Fiberglass from Zhenshi and Fame Success Investments Limited, respectively, for considerations of US\$59,504,098.65 and US\$39,669,399.10, which were based on the amount of net assets of Hengshi Fiberglass. The acquisition by Huajin Capital of the shares of Hengshi Fiberglass was financed through Shareholder equity injection by Huachen Investment Limited, Huakai Investment Limited and through an equity injection by the original shareholders of Hengshi Fiberglass. Following the acquisition by Huajin Capital Limited, Hengshi Fiberglass became an indirect wholly-owned subsidiary of the Company. Our PRC Legal Adviser has confirmed that we have completed all the necessary filing and registration with the relevant PRC government authorities for this acquisition and that this acquisition has been properly and legally completed and fully settled.

Upon completion of the Reorganisation, the proportional shareholdings of the ultimate beneficial owners of the Company mirror their proportional shareholdings in Hengshi Fiberglass immediately before the Reorganisation (except as disclosed in the note to the Company's shareholding structure below).

Our corporate structure immediately after the Reorganisation is set out below:

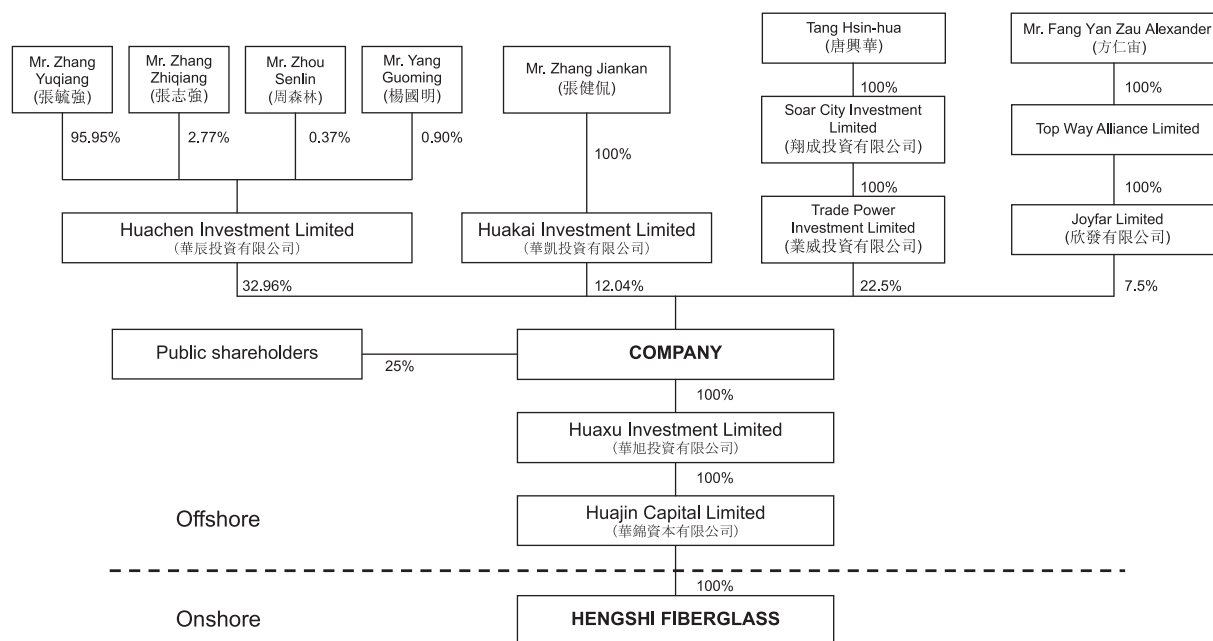


Note

- (1): The ultimate beneficial shareholding of Mr. Zhou Senlin in Hengshi Fiberglass was reduced as Mr. Zhou Senlin did not wish to take up his full proportional shareholding in the Company as previously held by him in Hengshi Fiberglass. This shortfall was taken up instead by Mr. Zhang Jiankan through Huakai Investment Limited.

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out our shareholding and group structure upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



PRC Legal Compliance

The SAFE issued a public notice named Notice on Relevant Issues Relating to Domestic Residents' Investment and Financing and Round-Trip Investment through Special Purpose Vehicles (including its appendixes), or the Circular No. 37, effective on 4 July 2014, which replaced the previous Notice on Relevant issues Concerning Foreign Exchange Administration for PRC Residents Engaging in Financing and Roundtrip Investments via Overseas Special Purpose Vehicles. The Circular No. 37 requires PRC residents, including PRC individuals and institutions, to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purposes of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. Such offshore entity being referred to as an offshore special purpose vehicle. In addition, such PRC residents must update their foreign exchange registrations with the SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

If any shareholder which is a PRC resident (as determined by Circular No. 37) holds any interest in an offshore special purpose vehicle and fails to fulfil the required foreign exchange registration with the local SAFE branches, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities. The offshore special purpose vehicle may also be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

As at the Latest Practicable Date, Mr. Zhang Yuqiang, Mr. Zhang Jiankan, Mr. Zhou Senlin, Mr. Yang Guoming and Mr. Zhang Zhiqiang have completed the foreign exchange registration for their offshore investment under the relevant PRC foreign exchange laws and regulations.

On 8 August 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the M&A Regulation, which became effective on 8 September 2006 and was reissued by MOFCOM in June 2009. Article 40 of the M&A Regulation requires that an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or

OUR HISTORY, REORGANISATION AND CORPORATE STRUCTURE

individuals, shall obtain the CSRC approval prior to the listing and trading of securities of such offshore special purpose vehicle on an overseas stock exchange. Article 11 of the M&A Regulation requires that any round-trip investment (as defined in the M&A Regulation) should be approved by MOFCOM.

The Company has received PRC legal advice that, since Hengshi Fiberglass was established as a foreign-invested enterprise prior to the effective date of the M&A Rules, and the Company's onshore reorganisation is subject to the Certain Provisions on Change of the Equity Interests of the Investors of A Foreign-Invested Enterprise (外商投資企業投資者股權變更的若干規定) and the Interim Provisions on Investment Made by Foreign-Invested Enterprises in China (外商投資企業境內投資的暫行規定) instead of the M&A Rules, the Company is not required to obtain the approval from MOFCOM for its onshore reorganisation.

In addition, the Company has received PRC legal advice that there is no need to obtain consents or approvals from the CSRC for the Listing, and that except for the approvals that have already been obtained, there is no need to obtain other consents or approvals from other PRC government authorities to implement the Company's Reorganisation.

OVERVIEW

We are a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades. According to the DNV GL Report, we were the third largest manufacturer and supplier of fiberglass fabrics used in wind turbine blades globally based on sales volume by tonnage in 2014 and the only PRC-based company among the top three global players. According to the DNV GL Report, our sales volume accounted for approximately 13.7% of the total global market sales of fiberglass fabrics used in wind turbine blades in 2014. In 2014, we had the largest exporting volume of fiberglass fabrics used in wind turbine blades by tonnage among all PRC-based companies, according to the DNV GL Report.

Since our inception in 2000, we have been dedicated to researching, developing and manufacturing fiberglass fabrics that are customised to various technical specifications required by our customers. Our business focus in recent years is to provide high quality fiberglass fabrics used in large-capacity onshore wind turbines with a unit capacity of 1.5 MW or above and offshore wind turbines. Supported by our strong research and development capabilities, we are able to offer fiberglass fabrics used in wind turbines with a unit capacity of up to 8.0 MW. We are also a key participant in the development and formulation of the PRC industry standard of fiberglass stitched fabrics (玻璃纖維縫編織物 GB/T 25040-2010).

We believe that we have one of the most diverse and comprehensive fiberglass fabrics portfolios for applications in the wind turbine blade sector, and we are able to customise our fiberglass fabrics to satisfy the strictest technical specifications in our industry. As at 31 December 2014, we offered five types of fiberglass fabrics: multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. Among these products, multi-axial fabrics and uni-directional fabrics are our key products, most of which are sold to customers in the wind turbine blade sector, and the remaining products are mainly sold to customers in a variety of other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. During the Track Record Period, fiberglass fabrics manufactured and sold by us and used in the wind turbine blade sector, on average, accounted for approximately 75% of our revenue.

We currently have production facilities in Tongxiang, Zhejiang province in China and in Suez, Egypt. In 2014, our annual effective designed production capacity was 80,506 tonnes, of which 59,134 tonnes were suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector. We have completed Hengshi Phase III Expansion Plan to expand our production capacity in China, which commenced operation in July 2015, and intend to further expand our production capacity in China in 2016 and 2017 under our Hengshi Phase IV Expansion Plan. We have constructed production facilities in Egypt under our Egypt Phase I Expansion Plan and intend to further expand our production capacity in Egypt in 2016 under our Egypt Phase II Expansion Plan. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We expect that our total annual effective designed production capacity will reach 133,355 tonnes in 2015, of which a maximum capacity of 109,602 tonnes would be suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector. As at 31 December 2014, all of our manufacturing machines used for the manufacture of fiberglass fabrics used in the wind turbine blade sector were purchased from leading global manufacturers of weave machines, as a result of which we believe that we are equipped with a large number of technologically advanced and high quality machines and equipment.

We have over 14 years of operating history in the fiberglass fabrics industry and a strong and established reputation among the leading players in the global wind turbine blade sector. We believe that we are one of the top choices for customers pursuing high quality fiberglass fabrics used in wind turbine blades. Our key customers are manufacturers of wind turbines and blades worldwide and in China, including a number of players with significant market presence, such as Siemens, Vestas, Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司), Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司) and Lianyungang Zhongfu Lianzhong Composites Group Co., Ltd. (連雲港中複連眾複合材料集團有限公司). Our current customer base covers all of the leading global manufacturers of wind turbines and blades.

BUSINESS

We achieved an overall significant growth in revenue and net profit during the Track Record Period. Our revenue was RMB441.0 million, RMB405.4 million and RMB678.6 million in 2012, 2013 and 2014, respectively, representing a CAGR of 24.1% from 2012 to 2014. Our revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015. Our revenue generated from sales to the wind turbine blade sector, which is the aggregate of sales of products specified in contracts for wind turbine blade sector, was RMB331.1 million, RMB301.7 million, RMB563.9 million and RMB432.7 million in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively, accounting for 75.1%, 74.4%, 83.1% and 86.5% of our total revenue during the same periods, respectively. Our net profit increased from RMB71.6 million in 2012 to RMB78.1 million in 2013 and further to RMB131.7 million in 2014, representing a CAGR of 35.6% from 2012 to 2014. Our net profit increased by RMB94.5 million, or 266.9%, from RMB35.4 million in the six months ended 30 June 2014 to RMB129.9 million in the six months ended 30 June 2015.

OUR STRENGTHS

We believe that the following competitive strengths have contributed to our success and differentiate us from our competitors.

We are well positioned to benefit from the long-term potential growth of the wind turbine blade sector.

Our fiberglass fabrics are primarily targeted to customers in the wind turbine blade sector. The wind turbine blade sector is a fast growing sector both globally and in China. According to the DNV GL Report, the newly installed capacity of wind turbines globally grew at a CAGR of 6.2% from 2009 to 2014, and is estimated to grow at a CAGR of 5.7% from 2015 to 2020. According to the DNV GL Report, the cumulative installed capacity of the wind turbines globally and in China grew at a CAGR of 18.5% and 35.1%, respectively, from 2009 to 2014, and is estimated to grow at a CAGR of 10.8% and 11.4%, respectively, from 2015 to 2020. Principally driven by the long-term growth of the wind turbine blade sector, the volume of fiberglass fabrics used in the global and PRC wind turbine blade sector grew at a CAGR of 9.9% and 15.8%, respectively, from 2009 to 2014, and is estimated to grow at a CAGR of 7.5% and 5.4%, respectively, from 2015 to 2020, according to the DNV GL Report. In 2014, we generated over 80% of our revenue from selling fiberglass fabrics as the base material of wind turbine blades.

Our business focus in recent years has been providing high quality fiberglass fabrics used in large-capacity onshore wind turbines with a unit capacity of 1.5 MW or above and offshore wind turbines. We believe that with such business focus, we are able to maintain our competitiveness in the fiberglass fabrics industry. Due to more stringent operating criteria and higher barriers to entry, these wind turbines pose higher standards to the performance and quality of fiberglass fabrics. In particular, offshore wind turbines are expected to further expand their shares of global installed wind capacities, which we believe will drive demand for our products. According to the DNV GL Report, the cumulative installed capacity of offshore wind turbines globally grew at a CAGR of 30.2% from 2009 to 2014, and is estimated to grow at a CAGR of 23.1% from 2015 to 2020.

We believe that the demand for fiberglass fabrics in the wind turbine blade sector will increase in the long term with the continual replacement of blades at existing wind farms, the anticipated newly installed wind power capacity and favourable government policies for renewable energies, in particular the wind turbine blade sector. The standard design life for wind turbine blades is 20 years. However, the actual useful life of wind turbine blades may be shorter, due to a number of extreme environmental factors, such as ice, sand and salt, as well as heat and humidity levels. Furthermore, wind power is a renewable energy supported by many governments. For example, the U.S. government has adopted a renewable PTC program to incentivise wind power installation. For another example, the wind turbine blade sector and its related fiberglass fabrics industry are among the high and new technology sectors supported by the PRC central government under the categories of clean energy technology and new materials technology, respectively. In 2013, the PRC government announced a target of 200 GW installed wind power capacity by 2020, which implies an average annual installation of over 14 GW from 2015 to 2020. We believe that government policies will continue to encourage the development of the wind turbine blade sector, which in turn is expected to drive market demand for fiberglass fabrics with applications in this industry. By leveraging our first-mover advantages in supplying fiberglass fabrics to global and PRC

customers in the wind turbine blade sector, our existing market leading position and our strategic focus on high performance fiberglass fabrics, we believe that we are well positioned to capture future market opportunities in the wind turbine blade sector, both globally and in the PRC.

We are a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades.

We are a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades. According to the DNV GL Report, we were the third largest manufacturer and supplier of fiberglass fabrics used in wind turbine blades globally based on sales volume by tonnage in 2014 and the only PRC-based company among the top three global players. Our sales volume of fiberglass fabrics used in the wind turbine blade sector by tonnage accounted for approximately 13.7% of the global market in 2014, according to the DNV GL Report. Based on agreements we had entered into with our customers as at the Latest Practicable Date, the indicative sales volume to be delivered by us in 2015 is currently expected to be approximately 93,009 tonnes. We believe that such indicative sales volume in 2015 allows us to further maintain and enhance our leading market position. While we expect our growth in sales volumes will moderate in 2016 and 2017 when the demand for fiberglass fabrics in the wind turbine blades industry is expected to slightly slow down, we do not expect a significant impact on our business. Our major customers such as Siemens are market leaders in the wind turbine blade manufacturing industry whose businesses are more resilient to market fluctuations. The expiration of the PTC program for wind power projects in the United States at the end of 2014 showed limited impact on our business in the United States in the six months ended 30 June 2015. Our sales in the United States for the six months ended 30 June 2015 were approximately 166% higher than that in the same period in 2014, mainly attributable to the resilient growth in demand from our major customers in the United States. We expect to benefit from new customers we acquired in 2015, including LM Wind Power, which is one of the largest wind turbine blade manufacturers in the world, and ACCIONA Blades S.A. During the downturn of the industry in 2013, we still managed to increase our market share in the sector of fiberglass fabrics in the wind turbine blades industry, as a result of our leading market position and stable relationships with our major customers.

We believe that our market leading position affords us significant competitive advantages. As a result of our economies of scale, we enjoy cost advantages and a certain level of pricing power, thereby allowing us to achieve profitable and growth. Our market leading position provides us with in-depth understanding of the global and PRC fiberglass fabrics and wind power industries, which in turn enables us to identify and capture the market trends and opportunities ahead of our competitors. In 2014, we had the largest exporting volume of fiberglass fabrics used in wind turbine blades by tonnage among all PRC-based companies, according to the DNV GL Report. With our established reputation among the leading players in the global wind turbine blade sector, we believe that we are one of the top choices for customers pursuing high quality fiberglass fabrics used in blades on large-capacity wind turbines, which enables us to further reinforce the loyalty of our existing customers, broaden our customer base and expand our market share globally. With over 14 years of operational experience in the production and research and development of fiberglass fabrics, we believe that we are equipped with a large number of technologically advanced and high quality machines and equipment. The advantages we enjoy over our competitors in China are also demonstrated by the various certification and awards we have received, including customer certification from Vestas and Siemens, which are among the largest manufacturers of wind turbines worldwide, international certificates from DNV GL and recognition of our products as Famous Brand Product of Zhejiang Province (浙江名牌產品). For details, see “— Certifications and Performance Tests,” “— Quality Control — Certifications and Qualifications” and “— Awards and Recognitions.”

We benefit from the high barriers to entry in the fiberglass fabrics industry with applications in the wind turbine blade sector.

The fiberglass fabrics industry, with applications in the wind turbine blade sector, has high barriers to entry as safety and reliability is the core focus of manufacturers of wind turbines and blades. To ensure the safety and reliability of blades, manufacturers of wind turbines and blades worldwide generally exercise great care in reviewing the reputation and historical performance of suppliers, value long-standing suppliers whose product quality has been proven over years and maintain a robust customer certification process.

In general, manufacturers of wind turbines and blades only procure certified fiberglass fabrics from their own certified suppliers. Such customer certification process involves conducting extensive, time-consuming tests

to validate the quality and technical specifications of sample products provided by fiberglass fabrics suppliers. To obtain such customer certification, suppliers must ensure that the relevant fiberglass fabrics consistently satisfy various designated quality and functionality tests so as to ensure satisfactory strength, modulus, durability and anti-fatigue characteristics. For a specific fiberglass fabrics product, obtaining customer certification from overseas manufacturers of wind turbines and blades typically takes two to three years, and obtaining customer certification from PRC-based manufacturers of wind turbines and blades typically takes approximately six months to two years. Due to the lengthy and complicated certification process and the heavy focus on the safety and reliability of blades, these manufacturers typically source from a limited number of certified suppliers of fiberglass fabrics and are reluctant to change suppliers of fiberglass fabrics once certified, thereby further reinforcing the high barriers to entry for our industry and our first-mover advantages. According to the DNV Report, major wind turbine and blade manufacturers typically qualify two suppliers for each main type of fiberglass fabrics. We are currently the largest certified PRC-based supplier of fiberglass fabrics for use in offshore wind turbine blades of a key customer, which is the largest wind turbine manufacturer globally in terms of cumulative installed capacity by the end of 2014. In addition to customer certifications, we have also obtained major international certifications related to fiberglass fabrics with applications in the wind turbine blade sector, such as DNV GL certificates.

Furthermore, as fiberglass is the base material to manufacture fiberglass fabrics, substantially all of our customers in the wind turbine blade sector extend their certification process to fiberglass suppliers as well. Such practice further strengthens the barriers to entry in our industry and creates competitive advantages for fiberglass fabrics manufacturers which have built long-term, strong relationships with renowned fiberglass suppliers. By leveraging our 14-year collaborative relationships with China Jushi, the second largest fiberglass manufacturer worldwide and the largest fiberglass manufacturer in Asia in terms of sales volume by tonnage in 2014, according to the DNV GL Report, we are not only able to secure a stable supply of high-quality fiberglass, but also cooperate with China Jushi in our research and development activities to improve the technical specifications of our products. We believe that our strong relationship with China Jushi has differentiated us from many competitors.

We possess strong research and development capabilities and solid experience in the fiberglass fabrics industry, which afford us a high degree of recognition among our customers.

To enhance our competitiveness and expand our business, we focus on the research and development of technologies that improve our product performance, so as to stand ready to satisfy various new technical specifications required by our customers from time to time. We believe that our strong research and development capabilities, among others, have helped us achieve a high degree of recognition among our customers.

- *Research and development achievements.* Supported by our strong research and development capabilities, we are able to offer fiberglass fabrics used in wind turbines with a unit capacity of up to 8.0 MW. We believe that we have one of the most diverse and comprehensive fiberglass fabrics portfolios for applications in the wind turbine blade sector, and we are able to customise our fiberglass fabrics to satisfy the strictest technical specifications in our industry. In addition, we are also a key participant in the development and formulation of the PRC industry standard of fiberglass stitched fabrics (玻璃纖維縫編織物 GB/T 25040-2010). As at the Latest Practicable Date, a number of our technologies and products have been recognised as new, innovative projects by national or regional-level governments in China. For details, see “— Research and Development.”
- *Highly qualified team with extensive research and development experience.* The weaving efficiency and performance of fiberglass fabrics depend to a significant extent on the quality of the research and development and technical personnel who work on them, and these personnel gain their experience and expertise in day-to-day operations. Our chairman and non-executive Director, Mr. Zhang Yuqiang, is not only a well-recognised entrepreneur in China with extensive experience in management, operations, sales and marketing, but also has more than 40 years of experience in research and development of fiberglass and fiberglass fabrics. Mr. Zhang Yuqiang is actively involved in and has continually guided our research and development activities. According to the DNV GL Report, China’s wind turbine blade sector and the related fiberglass fabrics industry only

emerged in the last decade and there is currently a general lack of qualified personnel with extensive industry experience in China. We believe that we have recruited, trained and retained personnel that are among the first generation of research and development and technical personnel for the wind power-related fiberglass fabrics industry in China, and key members of our research and development team have, on average, ten years of experience in the fiberglass and fiberglass fabrics industries. As at 30 June 2015, our research and development team had 117 employees, consisting of 26 employees in the research and development department and 91 employees in other departments such as our production department and quality control department, who were also involved in our research and development activities.

- *Close collaborative relationships with our key supplier and external research partners.* As the technical specifications of our fiberglass fabrics and weaving techniques relate closely to the quality and specifications of our supply of fiberglass, we have established a strong relationship with China Jushi, our key supplier of fiberglass, to select the most suitable fiberglass and constantly improve or change the specifications of fiberglass supplied to us, in order to develop customised products for our customers. In addition, such cooperation with China Jushi is also critical for us to determine the appropriate weaving techniques, so as to ensure the performance and quality of our products and reduce the potential waste of fiberglass during our manufacturing process. On 1 January 2015, we also entered into a strategic cooperation Agreement with Jushi Group, pursuant to which Jushi Group will establish an information sharing mechanism with us in relation to the market information and technology development of fiberglass. We believe that we have benefited, and will continue to benefit, from our cooperative relationship with China Jushi. We also place great emphasis on interactions with our end users, which enables us to better understand and address the needs of our customers through customer-oriented research and development activities. In collaboration with one of our major customers, we are developing a new type of fiberglass fabric which is expected to effectively reduce the weight of wind turbine blades to be manufactured and thereby enhance the efficiency of power generation. We are also working with another major customer in developing a new type of fiberglass fabric which is expected to facilitate the automation of the wind turbine blade manufacturing process and enhance the efficiency of wind turbine blades manufacturing. The two new types of fiberglass fabric have been certified by our respective customers and are ready for production. Furthermore, we have established cooperative relationships with certain research institutions to leverage their expertise in industry studies and research, including Zhejiang University of Science and Technology (浙江理工大學) and Jiaying College (嘉興學院).
- *Advanced research and development centre and equipment.* We currently maintain a Provincial-level Research and Development Centre of High and New Technology Enterprise (省級高新技術企業研究開發中心) in Zhejiang province that is focused on the research and development of functional performance of fiberglass fabrics. We have applied for the recognition of our laboratory as a national level laboratory and expect to receive the recognition from China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會) by the end of 2015. We have also purchased advanced equipment utilising the leading technologies in the industry to support our research and development activities. We believe that we are equipped with a large number of technologically advanced and high quality machines and equipment.
- *Patents and qualification standards.* As at 30 June 2015, we had a total of 43 patents and were in the process of applying for an additional 14 patents, all of which we independently developed. Our products and various management systems have also satisfied the requirements of GBT 19022-2003/ISO10012:2003, ISO14001:2004, GB/T 28001-2011 and/or GB/T 19001-2008 idt ISO9001:2008.

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Our customer base covers all of the leading wind turbine and blade manufacturers globally and in China, and we benefit from our long-term, stable relationships with major customers.

Due to continual efforts since our inception in 2000, our customer base covers all of the leading wind turbine and blade manufacturers globally and in China. We are also a key supplier to most of these customers. We believe that our strong customer base has driven, and will continue to drive, our growth in the future.

- *Balanced and strong market coverage in major wind power markets.* With over 14 years of operating history in the fiberglass fabrics industry, we have developed a balanced and strong market coverage in Europe, the United States and China, which are the largest wind power markets. For the six months ended 30 June 2015, our revenue derived from sales to Europe, North America and China accounted for 26.4%, 18.9% and 52.6% of our total revenue, respectively. In 2014 and the six months ended 30 June 2015, our customers were located in 18 countries overseas and Hong Kong and Taiwan and 20 provinces in mainland China. In addition, our fiberglass fabrics are used by our customers in both onshore and offshore wind turbine blades. In particular, the offshore wind turbine blades have high technical requirements for fiberglass fabrics, thereby reinforcing the customer loyalty for our products supplied to such sector.
- *Leading market positions of our customers.* Our key customers are manufacturers of wind turbines and blades, including a number of players with significant market presence globally and in China, such as Vestas, Siemens, Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司), Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司) and Lianyungang Zhongfu Lianzhong Composites Group Co., Ltd. (連雲港中複連眾複合材料集團有限公司).
- *Long-term, stable relationships with major customers.* During the Track Record Period, we retained all major customers in the wind turbine blade sector and continued expanding our customer base. We are one of the first PRC-based suppliers of fiberglass fabrics for use in wind turbine blades to major global manufacturers of wind turbines and blades. We commenced sales to Vestas and Siemens in 2005 and 2008, respectively. We also commenced sales to AVIC Huiteng Windpower Equipment Co., Ltd. (中航惠騰風電設備股份有限公司) in 2006, Lianyungang Zhongfu Liangzhong Composites Group Co., Ltd. (連雲港中複連眾複合材料集團有限公司) in 2007 and Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司) in 2011, all of which are among our key customers. According to the DNV GL Report, major wind turbine and blade manufacturers typically qualify two suppliers for each main type of fiberglass fabrics. For a specific fiberglass fabrics product, obtaining customer certification from overseas manufacturers of wind turbines and blades typically takes two to three years, and obtaining customer certification from PRC-based manufacturers of wind turbines and blades typically takes approximately six months to two years. Such limited number of certified suppliers and the length of time and amount of steps involved in completing the relevant certification process both contribute to the stability of our relationships with our major customers and pose high barriers to entry for our industry. We were also recognised as the Supplier of the Year by Vestas in 2008 and 2014 and won an Excellent Supplier Award from Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司).
- *Potential growth driven by sales to new customers.* Despite the high concentration in the wind turbine blade sector, our number of customers in the wind turbine blade sector increased from ten in 2012 to 13 in 2013 and further to 20 in 2014. For example, we developed Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司) and Tecsis GmbH as our customers in 2012 and 2013. We also developed certain new customers in 2014, including Nantong Dongtai New Energy Equipment Co., Ltd. (南通東泰新能源設備有限公司), Meize Wind Power Equipment Manufacture (Inner Mongolia) Co., Limited (美澤風電設備製造(內蒙古)有限公司), Guodian United Power Technology Co., Ltd. (國電聯合動力技術有限公司), Gamesa and TPI Composites Inc. From 1 January 2015 to the Latest Practicable Date, we further developed two customers in the wind turbine blade sector, namely LM Wind Power, which is one of the largest wind turbine blade manufacturers in the world, and ACCIONA Blades S.A. Our revenue generated from sales to customers newly developed in the wind turbine blade sector in 2013 and 2014 accounted for approximately 1% and 5% of our total revenue

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arising from such sector during the same periods, respectively. We believe that sales to these new customers and our continued efforts to develop potential customers will further drive our growth to capture market share in our industry.

We believe that we benefit from the leading market positions of our wind power customers when the market conditions in the wind turbine blade sector fluctuate. For example, we achieved an increase in market share from 9.5% in 2012 to 11.3% in 2013 when the wind turbine blade sector experienced a slowdown in newly installed capacity. By leveraging our established long-term, stable relationship with our key customers and continued efforts to develop new customers, we believe that we are well positioned to adapt to evolving market conditions in the wind turbine blade sector and capture such industry's long-term growth potential.

We have an experienced and committed management team with a strong track record.

Our key executives and senior management team have an average of more than ten years of experience in the fiberglass and fiberglass fabrics industries. Our chairman and non-executive Director, Mr. Zhang Yuqiang has over 40 years of experience in the fiberglass and fiberglass fabrics industries, and his dedicated leadership is a significant contributor to our success as a global market leader.

Our management team has a proven track record of identifying market opportunities, executing business strategies, guiding our expansion into high growth areas and delivering growth and profitability. Our senior management has the leadership and vision to identify and anticipate customer preferences to expand the sales of our existing products and develop new ones. Furthermore, our Directors and senior management team have extensive experience and expertise in the fiberglass fabrics industry, as well as a comprehensive understanding of market conditions of not only the fiberglass fabrics industry but also the industries in which our products are used, especially the wind turbine blade sector. With their industry expertise, professional management skills and strong execution capability, we expect that our management team will continue to successfully implement our growth strategies in the rapidly expanding global fiberglass fabrics industry.

We believe that the proven capability, leadership, vision, loyalty and consistent efforts of our management team and their extensive experience in the global fiberglass fabrics industry are key factors behind our success and will continue to drive our future growth.

OUR STRATEGIES

Our objectives are to further consolidate and enhance our market leadership globally and become the global leader for the research and development and manufacture of fiberglass fabrics with applications in the wind turbine blade sector. We intend to achieve such objectives by implementing the following key business strategies.

Continue to consolidate our leading position globally and enhance market share in the global market of fiberglass fabrics with applications in the wind turbine blade sector

We intend to continue to leverage our leading position in the global market of fiberglass fabrics with applications in the wind turbine blade sector to capture the expected future growth in global demand for such products, and we target to become the largest global manufacturer and supplier of fiberglass fabrics with applications in the wind turbine blade sector in terms of market share in the next three to five years.

In order to consolidate and enhance our leading position globally, we intend to focus on the research and development and manufacture of fiberglass fabrics used in wind turbines with a unit capacity of 5.0 MW or above. We expect that the high barriers to entry for these specific sectors and the complex technologies and expertise involved will likely lead to a stronger pricing power of fiberglass fabrics suppliers in these sectors and greater profitability. We plan to increase our market share by capitalising on our economies of scale. In addition, we seek to continue collaborating with our customers on their technical requirements so as to capture the industry trend and offer advanced and innovative products that are tailored to the specific customer needs and requests. Moreover, in order to quickly capture the market share of fiberglass fabrics for use in high-output wind turbines, we strive to continue improving our cost structure and efficiency, which may further allow us to offer products at competitive prices. For example, through our planned expansion of production capacity in Egypt, we intend to not only further increase our sales to overseas customers, but also to reduce our delivery costs and exposure of

our products to anti-dumping duties and provide more responsive services to our customers so as to maintain and strengthen customer loyalty.

Furthermore, we seek to further expand our customer base and broaden our sales network. The wind turbine blade sector has grown rapidly in recent years and is expected to continue growing given the increasing global focus on renewable energy and the related support from many governments. We intend to continue monitoring market conditions, identifying emerging markets and potential customers and building business relationships with new customers by leveraging our in-depth understanding of the fiberglass fabrics and wind power industries. Depending on the development needs of our overseas business, we also intend to further broaden our sales network to cover emerging markets and enhance our ability to provide our overseas customers with localised services. For example, we expect to provide more localised technical services to our European, the Middle East and African customers through our production facilities under construction in Egypt. Through providing our customers with more advanced and customised fiberglass fabrics and high-quality, comprehensive services, we believe that we will be able to maintain our existing major customers and further expand our customer base.

Optimise supply chain to achieve an efficient cost structure through overseas production facilities

We intend to continue to achieve an efficient cost structure through optimisation of our supply chain in overseas markets by constructing production facilities in Egypt and the United States. We strategically select these locations in order to capture cost synergy arising from our fiberglass procurement from China Jushi, which has constructed fiberglass production facilities in Egypt and also plans to construct fiberglass production facilities in the United States. We believe that our expansion plans will improve the efficiency of our supply chain to overseas customers and reduce our overall production costs, in addition to enhancing our scale of operations to achieve greater economies of scale.

- *Egypt.* We have completed our Egypt Phase I Expansion Plan to construct production facilities in Suez, Egypt, which have an aggregate annual designed production capacity of 9,933 tonnes of fiberglass fabrics. All of such capacity is suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. The aggregate capital expenditures for our Egypt Phase I Expansion Plan amount to RMB34.0 million, of which RMB33.7 million had been incurred as at 30 June 2015 and the remaining RMB0.3 million will be fully settled in the second half of 2015. Upon its completion, we plan to supply products manufactured in Egypt to customers in Europe, the Middle East and Africa. We also intend to further expand our production capacity in Egypt in 2016 under our Egypt Phase II Expansion Plan, which will be funded by cash generated from our operations.
- *United States.* In order to optimise our supply chain in North and Latin America, we also plan to construct production facilities in the United States, subject to market conditions and the plan of China Jushi to construct fiberglass production facilities in the United States. We intend to have a more definitive plan in respect of the production capacity, construction schedule and capital expenditures only when China Jushi has completed its construction of fiberglass production facilities in the United States, the timing of which is not determined as at the Latest Practicable Date.

For details of our expansion plans, see “— Production — Future Expansion Plans.” Our planned production facilities in Egypt are located in close proximity to the local facilities of our key supplier of fiberglass, China Jushi, and we have entered into a strategic cooperation agreement with Jushi Group on 1 January 2015 covering its supply of fiberglass to us outside China. As such, we believe that we will be able to continue benefiting from the synergy that we have created through our historic procurement of fiberglass from, and cooperation with, China Jushi. We expect that our planned facilities in overseas markets will also lower our delivery costs and reduce the risks of subjecting our customers to anti-dumping or similar duties on products manufactured in our PRC-based facilities. In addition, by leveraging the convenient locations of our new

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production facilities, we expect to provide technical services to our overseas customers with further enhanced speed and responsiveness, thereby reinforcing customer loyalty. Considering these factors, we plan to gradually meet substantially all of the demand for fiberglass fabrics from our overseas customers with our overseas production facilities, subject to the prevailing market conditions.

Continue to maintain and enhance our strong research and development capabilities

We believe that our strong research and development capabilities and focus on technology and product innovation will continue to drive our success. We intend to adopt a customer-oriented research and development strategy to identify market opportunities by closely monitoring customer preferences and industry trends, devoting resources accordingly to improve the technical specifications of our existing products and developing new products that meet the evolving industry standards and specific customer requirements. We also intend to continue our strategy to use advanced equipment in our production and replace or upgrade such equipment from time to time as those with better technical capabilities become available.

We intend to devote research and development resources to enhance the technical specifications of our fiberglass fabrics used in wind turbines with a unit capacity of 5.0 MW or above, which normally use large-sized wind turbine blades requiring extended length of fiberglass fabrics. We also plan to develop new products with applications in other industries to achieve a more diversified product portfolio. Our current pipeline of such new products primarily includes basalt fiber fabrics (玄武岩纖維織物). For details of such product candidate, see “—Our Products — Our Product Pipeline.”

We will further refine the structure and operations of our research and development to better encourage our technical personnel to reach their full potential and to facilitate their research and development activities. In line with our overall expansion strategy, we intend to incur more research and development expenditures on product design and development and performance tests. In addition, we will continue to engage in technology exchanges and partnerships with China Jushi, our key fiberglass supplier, leading PRC-based research institutions and key customers. Through these efforts, we seek to better understand cutting-edge technologies relating to fiberglass fabrics and the new products that we intend to develop in the global market and continue to keep our research and development team at the forefront of fiberglass fabrics technologies.

Further enhance our diverse product portfolio and enter markets with growth potential

Most of our fiberglass fabrics are currently used in wind turbine blades. We intend to further diversify our product portfolio within the wind turbine blade sector by developing additional types of fiberglass fabrics that cater to a wide range of operative conditions. We believe that such efforts will not only help us retain our existing customers, but also attract new customers. For example, we intend to enhance the technical specifications of our fiberglass fabrics for use in wind turbines with a unit capacity of 5.0 MW or above, which normally use large-sized wind turbine blades requiring extended length of fiberglass fabrics. In addition, in anticipation of the rapid development of offshore wind farms, we plan to devote significant resources to develop products that satisfy offshore weather and wind conditions, including typhoon, thunderstorm, salty air, high and low temperature. We believe that, through such efforts, we should be able to further expand our customer base in the wind turbine blade sector.

While we will continue to strengthen our market leading position to address the applications of fiberglass fabrics in the wind turbine blade sector, we will also constantly study and identify industry trends, aiming at capturing and realising the growth potential offered by our existing products, and develop new products or new applications of fiberglass fabrics so as to broaden our revenue sources. With respect to products developed by us in recent years, we intend to further expand our sales of E/PP compofil fabrics which is an environment-friendly material widely used in industries such as transportation, construction and sporting goods, primarily due to its relatively high gross profit margin as a result of its high barriers to entry and the first-mover advantages we have gained on this product. Our current product pipeline includes basalt fiber fabrics (玄武岩纖維織物), which are usually used in the construction industry. We intend to launch our basalt fiber fabrics by the end of 2016. We believe that basalt fiber fabrics are complementary to, and will enrich, our existing product portfolio. For details of our production pipeline, see “— Our Products — Our Product Pipeline.”

OUR PRODUCTS

As a global leader in the wind power-related fiberglass fabrics industry, we have developed a wide range of fiberglass fabrics for the worldwide wind turbine blade sector, as well as for other industries. In 2014, over 80% of our revenue was generated from sales of fiberglass fabrics for use as the base material of wind turbine blades.

Applications of Our Products

We primarily manufacture and sell fiberglass fabrics that are customised to customers' specifications in the wind turbine blade sector based on orders we receive. We also manufacture and sell fiberglass fabrics according to various standard specifications that are widely used in the wind turbine blade sector and other industries. We believe that we have one of the most diverse and comprehensive fiberglass fabrics portfolios for applications in the wind turbine blade sector among all fiberglass fabrics suppliers globally. By leveraging our strong research and development capabilities and advanced machinery and equipment, we are able to manufacture fiberglass fabrics with various angles, multiple layers and customised sizes. Our fiberglass fabrics are designed to satisfy the strict technical specifications such as high modulus and good anti-fatigue characteristics as well as operating conditions in which our end users operate, such as low- or high-temperature environments, high humidity environments and offshore areas. In connection with the sale of our fiberglass fabrics for use in the wind turbine blade sector, we also provide our customers with value-added services to cut the fiberglass fabrics into customised shapes. For details, see "— Value-added Services Relating to Our Products."

A majority of our fiberglass fabrics are designed for use as the base material of wind turbine blades with output of up to 1.5 MW and cater to various requirements from our customers. We can also produce fiberglass fabrics for use as the base material of wind turbine blades with output of up to 8.0 MW as required by our customers. Our fiberglass fabrics designated for use in the wind turbine blade sector are in general lightweight and strong and have good anti-fatigue and high modulus characteristics to satisfy onshore and offshore weather and wind conditions including typhoon, thunderstorm, salty air, freezing, lower temperature and sand dust. All of our fiberglass fabrics used in the wind turbine blade sector have passed our internal and customers' functionality tests with respect to the strength, modulus and anti-fatigue characteristics.

We also manufacture fiberglass fabrics for use in other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. Substantially all of our fiberglass fabrics used in other industries are manufactured according to our customers' specifications.

Value-added Services Relating to Our Products

As part of our strategy to provide customised products to our customers, we commenced offering of value-added services in 2012 to cut our finished products according to specifications required by our customers. In order to provide such services, we use the relevant professional software to analyse and design drawings so as to satisfy the specifications required by our customers. We believe that our cutting services help improve the manufacturing efficiency of our customers in using our fabrics, reduce their waste of fabrics and save labour costs in the manufacturing process of our customers. As at 30 June 2015, we had nine cutting machines with a designed capacity to cut up to 22,500 tonnes of fiberglass fabrics on an annualised basis, which, together with our large customer base, afford us opportunities to create economies of scale for our cutting services and capture a higher gross profit margin on products cut by us. We typically increase the original price of our fiberglass fabrics if we provide cutting services. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, we provided cutting services on fiberglass fabrics of 1,002 tonnes, 2,288 tonnes, 7,351 tonnes, 2,618 tonnes and 12,270 tonnes, respectively, accounting for 2.4%, 5.7%, 11.0%, 9.24% and 26.03% of our sales volume during the same periods, respectively. Such value-added services have extended our supply chain to customers and improved our customer service levels, thereby creating additional revenue sources. These services also provide significant cost advantages and manufacturing efficiency to our customers by enabling them to directly use the post-cut fiberglass fabrics in wind turbine blades, which in turn improves our customer relationships and enhances our customer loyalty. Going forward, we intend to provide cutting services on an increased sales volume of fiberglass fabrics to realise the profitability potential.

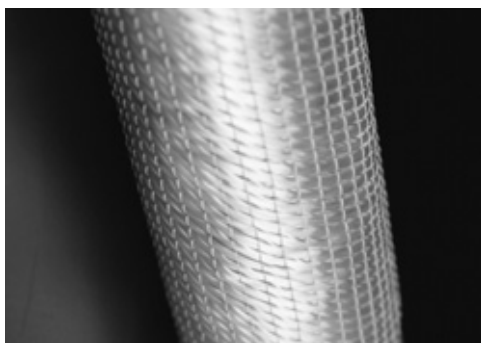
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Product Categories

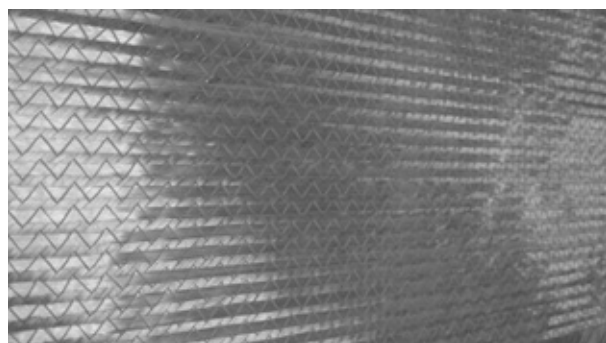
We currently manufacture and sell five types of fiberglass fabrics, namely multi-axial fabrics (多軸向織物), uni-directional fabrics (單軸向織物), woven roving combo mats (方格布複合氈), stitched mats (氈類) and E/PP compofil fabrics (聚丙烯複合紗織物). Our fiberglass fabrics typically consist of one or more layers of fibers held in place by a secondary non-structural stitching thread. The stitching thread is usually polyester yarn due to its combination of appropriate fiber properties. The stitching process allows a variety of fiber orientations, beyond the simple 0/90° of woven fabrics, to be combined into one fabric. As substantially all of our products are customised to customer preference, each type of our fiberglass fabrics includes numerous series of products, subject to variations in technical specification. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, we sold 41,430 tonnes, 40,127 tonnes, 67,036 tonnes, 28,529 tonnes and 47,470 tonnes of fiberglass fabrics, respectively.

The table below sets forth, for the periods indicated, our revenue by products.

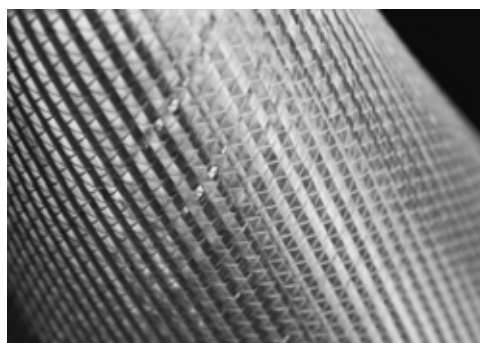
	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB	%	RMB	%	RMB	%	RMB'000	% of total	RMB'000	% of total
	(in thousands, except for percentages)						(unaudited)			
Multi-axial fabrics	344,374	78.1%	296,236	73.1%	488,122	71.9%	216,262	73.9%	366,265	73.2%
Uni-directional fabrics	64,663	14.7%	61,908	15.3%	132,478	19.5%	42,161	14.4%	102,990	20.6%
Woven roving combo mats	22,416	5.1%	19,567	4.8%	20,708	3.1%	9,509	3.2%	10,295	2.1%
Stitched mats	5,403	1.2%	8,795	2.1%	8,924	1.3%	4,558	1.6%	1,898	0.4%
E/PP compofil fabrics	4,107	0.9%	18,887	4.7%	28,368	4.2%	20,308	6.9%	18,730	3.7%
Total	440,963	100.0%	405,393	100.0%	678,600	100.0%	292,798	100.0%	500,178	100.0%

Multi-axial Fabrics (多軸向織物)

Bi-axial fabrics



Tri-axial fabrics



Quad-axial fabrics

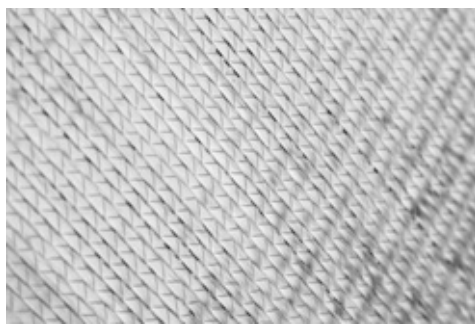
Multi-axial fabrics are our top product, accounting for 71.9% and 73.2% of our revenue in 2014 and the six months ended 30 June 2015, respectively. We launched this type of products in 2004. Multi-axial fabrics have good mechanical properties in respect of strength, modulus and anti-fatigue characteristics. We typically design our multi-axial fabrics with reinforcement features by adding reinforcement fiberglass from certain key directions, and balance the thickness by adjusting the layers of fabrics and orientations of fiberglass. Our multi-axial fabrics are adaptive to various technical specifications required by our customers, and are suitable for use on high-output wind turbines, such as those with a unit capacity of 8.0 MW, which usually have a very strict technical requirement on fiberglass fabrics.

Our multi-axial fabrics consist of three product categories: bi-axial fabrics, tri-axial fabrics and quad-axial fabrics according to the orientations of fibers.

- Bi-axial fabrics are principally used in wind turbine blades (shell), ship manufacturing, transportation, pipelines, pressure vessels and sporting goods.
- Tri-axial fabrics are principally used in wind turbine blades (root), ship manufacturing, transportation and sporting goods.
- Quad-axial fabrics are principally used in wind turbine blades (shell), ship manufacturing, pipelines and chemical containers.

During the Track Record Period, most of our multi-axial fabrics were sold to customers in the wind turbine blade sector. We have received a number of honours and awards for our multi-axial fabrics. Our E-BX800 series biaxial fabrics used on shells of blades of wind turbines with a unit capacity of 1.0 MW were recognised as a National Key New Product (國家重點新產品) by the Ministry of Science and Technology (科學技術部) in 2011. In addition, 12 series of our multi-axial fabrics were listed as Provincial New Product Pilot Projects (省級新產品試製計劃項目) by the Zhejiang Provincial Department of Science and Technology (浙江省科學技術廳) during the Track Record Period. As at the Latest Practicable Date, we had obtained DNV GL certificates for our multi-axial fabrics and Lloyd's Register certificate for our bi-axial fabrics.

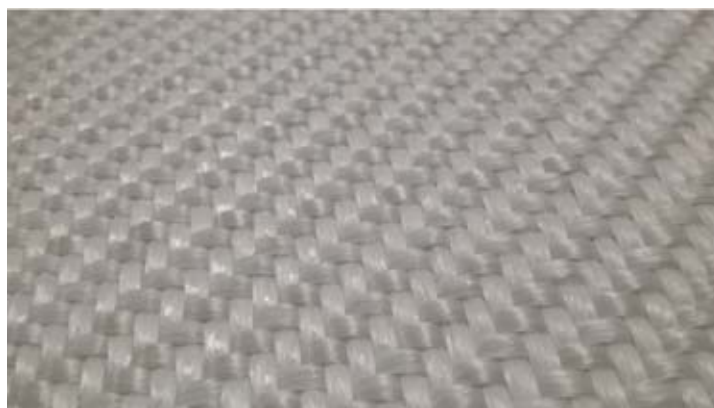
Uni-directional Fabrics (單軸向織物)



We launched our uni-directional fabrics in 2003. In 2014 and the six months ended 30 June 2015, uni-directional fabrics contributed 19.5% and 20.6% of our revenue, respectively. As compared to multi-axial fabrics, uni-directional fabrics typically have a majority of fiberglass run in one direction with only a small amount of other materials to hold the fiberglass in position. In addition, in order to gain adequate stability, a mat may be added to the face of the uni-directional fabrics according to customer preference. We are able to offer uni-directional fabrics for use in various industries such as wind turbine blades and pipelines due to the high stability properties of such product category. Our uni-directional fabrics have high tenacity and modulus and good corrosion resistance characteristics. They can be used under a wide range of temperatures, ranging from freezing to high temperatures. Our uni-directional fabrics usually have their fiberglass in the 0° direction, and to a lesser extent, in the 90° direction. As such, our uni-directional fabrics consist of two product categories: 0° uni-directional fabrics and 90° uni-directional fabrics.

- 0° uni-directional fabrics are principally used in wind turbine blades (main beam) and pressure vessels.
- 90° uni-directional fabrics are principally used in wind turbine blades and pipeline manufacturing materials.

During the Track Record Period, most of our uni-directional fabrics were sold to customers in the wind turbine blade sector. We received a number of honours and awards for our uni-directional fabrics. Our uni-directional fabrics used in the main beam of blades of wind turbines with a unit capacity of 2.0 MW were recognised as a National Torch Programme Project (國家火炬計劃項目) by the Torch Programme Project High Technology Industries Development Centre of the Ministry of Science and Technology (科學技術部火炬高技術產業開發中心) in 2012. In addition, seven series of our uni-directional fabrics were listed as Provincial New Product Pilot Projects (省級新產品試製計劃項目) by the Zhejiang Provincial Department of Science and Technology (浙江省科學技術廳) during the Track Record Period, and these fabrics are used on various parts of wind turbine blades and pipelines. As at the Latest Practicable Date, we had obtained DNV GL certificates for our uni-directional fabrics.

Woven Roving Combo Mats (方格布複合氈)

We launched our woven roving combo mats in 2001. In 2014 and the six months ended 30 June 2015, woven roving combo contributed 3.1% and 2.1% of our revenue, respectively. Woven roving combo mats are made of roving woven gingham and chopped strand fiberglass and are weaved with reinforcement features. Woven roving combo mats have good structural stability characteristics and cannot be easily deformed. Woven roving combo mats are principally used in ship manufacturing, pipelines and sporting goods. Our ESM600/450 woven roving combo mats used in long-distance oil pipelines were recognised as a National Torch Programme Project (國家火炬計劃項目) by the Torch Programme Project High Technology Industries Development Centre of the Ministry of Science and Technology (科學技術部火炬高技術產業開發中心) in 2012. As at the Latest Practicable Date, we had obtained DNV GL certificates for our woven roving combo mats.

Stitched Mats (氈類)

We launched our stitched mats in 2001. In 2014 and the six months ended 30 June 2015, stitched mats contributed 1.3% and 0.4% of our revenue, respectively. Our stitched mats consist of two product categories: stitched chopped strand mats (縫編短切氈) and core combination mats (夾心複合氈). Stitched mats are principally used in ship manufacturing and pipelines.

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- Stitched chopped strand mats have a single layer of chopped strand fiberglass that is laid out from various angles and weaved with reinforcement features. Stitched chopped strand mats are easy to be re-processed and used with other material to form new products.
- Core combination mats contain three layers, with the inner layer being polypropylene material and the upper and lower layers being chopped strand fiberglass that is laid out from various angles. The three layers are weaved with reinforcement features.

As at the Latest Practicable Date, we had obtained DNV GL certificate for our stitched mats.

E/PP CompoFil Fabrics (聚丙烯複合紗織物)



We launched our E/PP compofil fabrics in 2012. In 2014 and the six months ended 30 June 2015, E/PP compofil fabrics contributed 4.2% and 3.7% of our revenue, respectively. E/PP compofil fabrics is a reinforced roving product made of a fiber that is in turn made of fiberglass and polypropylene fiber (聚丙烯化纖). Products made of E/PP compofil fabrics are light in weight. In addition, E/PP compofil fabrics cannot be easily deformed and is environment-friendly with good recyclability. Our E/PP compofil fabrics is principally used in transportation, construction and sporting goods industries. As part of our business strategy, we intend to expand the sales of our E/PP compofil fabrics, primarily due to its relatively high gross profit margin as a result of its high barriers to entry and the first-mover advantages we have gained on this product. The high barriers to entry for E/PP compofil fabrics are primarily because China Jushi has a dominant market position in respect of the supplies of fiber used in the manufacture of compofil fiber woven roving and we have established a strong collaborative relationship with China Jushi.

Our Product Pipeline

We are continually developing new products to capture market opportunities and meet customer needs. We intend to continue focusing on development of fiberglass fabrics used in the wind turbine blade sector and offering products tailored to evolving customer preference and technical specifications. In particular, we plan to devote more resources to enhance the technical specifications of our fiberglass fabrics for use in wind turbines with a unit capacity of 5.0 MW or above, which normally have large-sized wind turbine blades requiring extended length of fiberglass fabrics. We believe that such sectors have higher barriers to entry, thereby affording us the opportunities to enjoy higher margins and stronger pricing power.

To supplement our product portfolio, we also intend to develop products that are made of other fibers. Our current product pipeline includes basalt fiber fabrics (玄武岩纖維織物). Basalt fiber fabrics are made of basalt fiber, which has relatively high tensile strength and modulus, good chemical-enduring characteristics and can be used under a wide range of temperatures. Basalt fiber fabrics primarily include plaid fabrics and multi-axial fabrics, as well as basalt fiber fabrics designed for use in composite materials. Basalt fiber fabrics are widely used as a type of insulation and friction materials with good thermostability characteristics and are usually used in the construction industry. We commenced our research and development of basalt fiber fabrics in 2014. As at the Latest Practicable Date, we had completed upgrading technologies for the manufacture of basalt fiber fabrics and commenced trial production of such product. We expect to launch our planned basalt fabrics products by the end of 2016.

We believe that basalt fiber fabrics are complementary to and will enrich our existing product portfolio, thereby creating new revenue channels. The introduction of such product candidate is also expected to diversify

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our suppliers of raw materials and customer base. As basalt fiber fabrics are a type of woven fabrics made of fibers, we are able to utilise our existing machinery and equipment to manufacture it without significant capital investment.

PRODUCTION

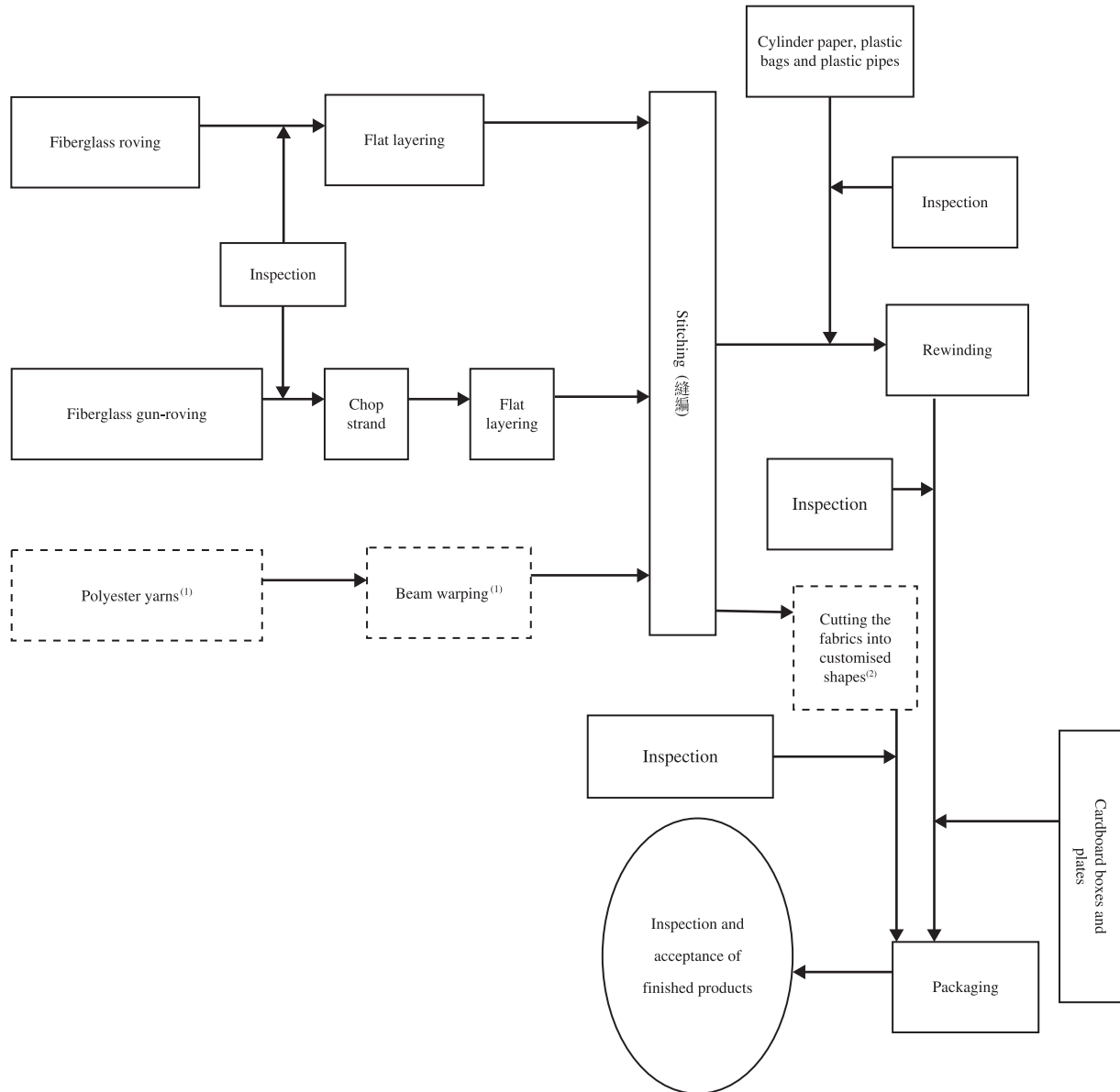
Overview

Fiberglass fabrics are manufactured primarily from fiberglass under plain weave pattern. We weave our fiberglass fabrics from a variety of angles, including uni-directionally, bi-axially, tri-axially and quad-axially. The primary raw material used in our manufacture of fiberglass fabrics is high-quality fiberglass, which accounts for a significant portion of our total costs of raw materials. If the fiberglass fabrics have multiple layers, we typically use polyester yarns to stitch together the layers.

Our packaging materials include cylinder paper, cardboard boxes, plastic pipes and plastic bags, as well as wood and steel plates.

Production Process

The following chart illustrates the primary manufacturing steps for our fiberglass fabrics.



Notes:

- (1) Only applicable if the fiberglass fabrics have multiple layers.
- (2) Only applicable if we provide cutting services. For details of such services, see “— Our Products — Value-added Services Relating to Our Products”.

Raw materials preparation. Depending on the specification requirements of the product, we select the raw materials required during the production process, including fiberglass roving, fiberglass gun-roving and polyester yarns.

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Flat layering. Flat layering is a process in which the fiberglass roving and fiberglass gun-roving are laid down on a conveyor belt in designated directions according to the required technical specifications in preparation for stitching.



Beam warping. In the beam warping process, the polyester yarns are withdrawn from the single-end yarn packages on the creel and directly wound on a beam in preparation for stitching. The beam warping process is only required if the finished products have multiple layers such that polyester yarns can be used to combine all layers together after beam warping.



Stitching. Stitching is carried out on machines which simultaneously draws in fibers for each axis/layer, until the required layers have been assembled, and then stitches them together.

Cutting. Cutting is a process in which the finished fiberglass fabrics are cut into customised shapes according to customer preference and the manufacturing requirements of the relevant products. For details, see “— Our Products — Value-added Services Relating to Our Products.”

Key Production Machinery, Equipment and Technology

We believe that technologically advanced, high quality machinery and equipment are critical to ensure quality and efficiency during our manufacturing process, and therefore we devote significant resources to identify and purchase machinery and equipment that we believe have cutting-edge technologies that can produce high quality products with efficiency. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our expenditure for purchasing machinery and equipment was RMB1.5 million, RMB13.4 million, RMB122.0 million, RMB28.1 million and RMB51.7 million, respectively, of which RMB1.5 million, RMB10.5 million,

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RMB117.1 million, RMB11.3 million and RMB24.8 million was incurred for purchase of machinery and equipment made by overseas manufacturers, and the remaining amount was for purchase of machinery and equipment made by PRC manufacturers. We typically fund such capital expenditure through a combination of cash generated from our operating activities, bank loans and capital injection by our Shareholders. As at 30 June 2015, we had more than 100 sets of machinery and equipment, consisting of manufacturing machines, equipment for testing, equipment for cutting finished fiberglass fabrics into customised shapes and machines for auxiliary purposes. A majority of our manufacturing machines are designed for the manufacture of fiberglass fabrics used in wind turbine blades. We believe that we are equipped with a large number of technologically advanced and high quality machines and equipment.

We place a great emphasis on the selection and purchase of advanced machinery and equipment to support our day-to-day operations and expansion plans. We closely monitor industry trends and analyse the customer preference and our up-to-date needs to identify machines and equipment that are required in our production process or may be significant to improve certain technical specifications of our products. Before we make a decision to purchase certain machinery and equipment, we also conduct a cost analysis to ensure that we can achieve a commercially acceptable utilisation rate of such machinery and equipment, and it can be adaptive to our existing production process. We purchased all of the machinery and equipment from independent third parties. A majority of our key manufacturing machinery and equipment are made by manufacturers globally renowned in their respective industries and have the required technologies to meet the specifications required by our customers.

We perform regular maintenance checks on the status of our production machinery and equipment and replace, purchase or upgrade our machinery and equipment from time to time as machinery and equipment with better technical capabilities become available.

Production Facilities and Capacities



Our production facilities are located in Tongxiang, Zhejiang province, and we have constructed production facilities in Suez, Egypt. As at 30 June 2015, we had facilities with a total gross floor area of 117,906 square metres for manufacturing and warehousing purposes, and our annual designed production capacity reached 90,000 tonnes. As at 30 June 2015, we had a production team of 1,031 employees. To efficiently manage our production, we manufacture substantially all of our products based on orders we received. In our production facilities, fiberglass fabrics are manufactured automatically in sheets by our machinery and equipment. Depending on the size and technical specifications of each sheet, the volume of fiberglass fabrics manufactured by a given machinery under operation during a given period varies. During the Track Record Period and up to the Latest Practicable Date, we did not experience any unexpected stoppage of operations as a result of any failure of our production facilities.

Depending on the technical requirements of products, our machines and equipment may be used to manufacture fiberglass fabrics used in various industries, giving us certain flexibility to switch production capability between fiberglass fabrics used in the wind turbine blade sector and in the other industries. All of our machines and equipment that are suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector are also suitable for the manufacture of products used in other industries. However, some of our machines and equipment are not suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector, as

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these products have more stringent technical requirements. Our designed effective production capacity of fiberglass fabrics used in the wind turbine blade sector was 59,134 tonnes in 2014. In 2014, we operated at nearly full capacity with respect to the manufacture of fiberglass fabrics used in the wind turbine blade sector when we experienced significant demand from our customers. The additional production capacity to be achieved under our expansion plans in China and Egypt is for the manufacture of fiberglass fabrics used in the wind turbine blade sector.

The following table sets forth, for the periods indicated, our designed effective production capacity, actual production volume and utilisation rates for all products.

For the year ended 31 December									Six months ended 30 June		
2012			2013			2014			2015		
Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate
(in tonnes, except for percentages)											
57,666	40,786	70.7%	61,173	42,262	69.1%	80,506	68,348	84.9%	59,441	49,157	82.7%

Note:

- (1) Designed effective production capacity for all products is calculated based on the production of standardised products and the production facilities operating 20.5 hours a day and based on 365 days a year (or 183 days for a six-month period). The designed effective production capacity for all products for a given period equals to (i) the production capacity at the beginning of the period, plus (ii) weighted newly added production capacity during the relevant period. Weighted newly added production capacity during a period is derived by multiplying (x) the total newly added production capacity during such period with (y) the number of months during which the new production capacity is in operation during such period and (z) divided by 12 months for a one-year period or six months for a six-month period. The calculation basis of 20.5 hours is based on three eight-hour shifts we have for production, after deducting maintenance time.

Our designed effective production capacity for a given year is usually lower than the annual designed production capacity as at the end of the same year, because the annualised full capacity of newly added machines and equipment is used to calculate our annual designed production capacity as at the end of a given year, whereas their weighted newly added production capacity is used to calculate our designed effective production capacity for a given year.

Our utilisation rate remained relatively stable in 2012 and 2013. Our utilisation rate increased from 69.1% in 2013 to 84.9% in 2014, primarily due to our increased sales volume across all major product categories as a result of increased market demand from our customers in 2014 in line with the recovery of the wind turbine blade sector and our increasing marketing efforts.

The following table sets forth, for the periods indicated, our designed effective production capacity, actual production volume and utilisation rates for products used in wind turbine blades.

For the year ended 31 December									Six months ended 30 June		
2012			2013			2014			2015		
Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate	Designed effective production capacity ⁽¹⁾	Actual production volume	Utilisation rate
(in tonnes, except for percentages)											
41,068	30,766	74.9%	42,938	30,201	70.3%	59,134	56,293	95.2%	47,565	45,402	95.5%

Note:

- (1) Designed effective production capacity for products used in wind turbine blades is calculated on the same basis as designed effective production capacity for all products, excluding the designed effective production capacity of machines that are not suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector.

Our designed effective production capacity for a given year is usually lower than the annual designed production capacity as at the end of the same year, because the annualised full capacity of newly added machines and equipment is used to calculate our annual designed production capacity as at the end of a given year, whereas their weighted newly added production capacity is used to calculate our designed effective production capacity for a given year.

Our utilisation rate for products used in wind turbine blades decreased from 74.9% in 2012 to 70.3% in 2013, primarily due to the slowdown in demand from our customers in the global wind turbine blade sector in

2013 while we purchased new machines and equipment to increase our designed effective production capacity for fiberglass fabrics used in the wind turbine blade sector during the same year. Our utilisation rate for products used in wind turbine blades increased from 70.3% in 2013 to 95.2% in 2014, primarily due to our increased sales volume of fiberglass fabrics used in the wind turbine blade sector as a result of increased market demand from our customers in 2014 in line with the recovery of the wind turbine blade sector and our increasing marketing efforts. Our utilisation rate for products used in wind turbine blades remained relatively stable in 2014 and the six months ended 30 June 2015.

In 2014, we outsourced the production of a small amount of our multi-axial fabrics to Independent Third Parties in China because we operated at nearly full capacity with respect to the manufacture of multi-axial fabrics used in the wind turbine blade sector when we experienced significant demand from our customers. The production volume manufactured and provided by such third-party manufacturers was approximately 500 tonnes, and the contribution of the batch of products manufactured by the third-party manufacturers to our total revenue in 2014 was less than 1.0%. Before we entered into the outsourcing arrangement with the third-party manufacturers, we sought approval from the relevant customers. We also selected the third-party manufacturers carefully by taking into account a number of factors, including their qualifications, experience, production capacity, machinery and equipment, proximity to our headquarters and terms offered by such third-party manufacturers, in order to ensure that they have operating capabilities and resources to meet our internal standards and technical specifications required by our customers. We also implemented a number of procedures to ensure the quality of the products manufactured by such third-party manufacturers, including designation of raw materials and stringent quality inspection before we accept the relevant products. Going forward, we may outsource the production of a small amount of products if we experience any constraints of our production capacity. However, taking into account our on-going and future production capacity expansion plans with respect to fiberglass fabrics used in the wind turbine blade sector, we anticipate that we will be able to meet substantially all of our production needs through our own production facilities in the future.

Future Expansion Plans

We have continuously upgraded our production facilities in the past through adding new machinery and equipment. Since our inception in 2000, we have gone through two phases of production expansion in China. We have also completed our Hengshi Phase III Expansion Plan and Egypt Phase I Expansion Plan to expand production capacity in 2015. We intend to further expand our production capacity in 2016 and 2017 by carrying out our Hengshi Phase IV Expansion Plan and Egypt Phase II Expansion Plan. In addition, subject to market conditions, we plan to further construct production facilities in the United States. We may also upgrade the production capacity of our existing equipment from time to time.

Production Capacity Expansion in China

Hengshi Phase III Expansion Plan

We have completed our Hengshi Phase III Expansion Plan to expand our production capacity in China, which commenced operation in July 2015. Our aggregate capital expenditures for our Hengshi Phase III Expansion Plan amount to RMB213.0 million, of which RMB179.8 million had been incurred as at 30 June 2015 and the remaining RMB33.2 million will be incurred and fully settled by the end of 2015. These capital expenditures are funded by capital injection from our shareholders, cash generated from our operations and bank loans. The total gross floor area under our Hengshi Phase III Expansion Plan is 26,268 square meters. Our capital expenditures to be settled in the second half of 2015 primarily relate to purchases of machines and equipment.

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The following table sets forth selective information about our Hengshi Phase III Expansion Plan.

Location	Planned annual designed production capacity	Production commencement date	Total budgeted capital expenditure	Actual capital expenditure incurred as at 30 June 2015	Estimated capital expenditure in the second half of 2015
	(tonnes)		(RMB in millions)	(RMB in millions)	(RMB in millions)
Tongxiang, Zhejiang province	30,020	July 2015	213.0	179.8	33.2

Hengshi Phase IV Expansion Plan

We intend to further expand our production capacity in China in 2016 and 2017 and expect to complete the relevant expansion by the end of 2017. Our estimated aggregate capital expenditures for our Hengshi Phase IV Expansion Plan amount to RMB259.0 million, which will be incurred and settled as to RMB196.0 million in 2016 and RMB63.0 million in 2017. These capital expenditures are expected to be funded by the net proceeds from the Global Offering and cash generated from our operations. For details, see “Future Plan and Use of Proceeds” in this prospectus.

The following table sets forth selective information about our Hengshi Phase IV Expansion Plan.

Location	Planned annual designed production capacity	Target production commencement date	Total budgeted capital expenditure	Estimated capital expenditure in 2016	Estimated capital expenditure in 2017
	(tonnes)		(RMB in millions)	(RMB in millions)	(RMB in millions)
Tongxiang, Zhejiang province	29,064	December 2016	259.0	196.0	63.0

Production Capacity Expansion in Egypt

Egypt Phase I Expansion Plan

In order to meet the growing market demand of fiberglass fabrics and optimise our supply chain in Europe, Middle East and Africa and to reduce the potential risks of anti-dumping or similar duties on our products manufactured in our PRC-based facilities, we have completed our Egypt Phase I Expansion Plan and have constructed production facilities in Suez, Egypt, which cover a gross floor area of 4,076 square metres. For a detailed description of considerations for our expansion plans in Egypt, see “— Considerations of Our Production Capacity Expansion Plans”. We set up a subsidiary in Egypt in December 2014. As at the Latest Practicable Date, we had obtained the licenses and permits necessary for starting up production in Egypt. These permits and licenses include (i) the approval of the Industrial Development Authority in Egypt, (ii) membership with the Egyptian Chamber of Textile Industries, and (iii) a temporary certificate from the Ministry of Trade and Industry in Egypt with its registration in the Industrial Register. As at the Latest Practicable Date, we had entered into a five-year agreement to lease a property for our Egypt Phase I Expansion Plan with a term from 1 August 2014 to 31 July 2019. We have recruited local workers to support the day-to-day production in our planned facilities in Egypt, and have assigned certain experienced members of our management, manufacturing, research and development and quality control teams from our headquarters to Egypt to provide on-site guidance and supervision to ensure the product quality and operational effectiveness in our planned facilities in Egypt. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We intend to target customers located in Europe, the Middle East and Africa through our new facilities in Egypt.

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Our capital expenditures for our Egypt Phase I Expansion Plan amount to RMB34.0 million. Of this amount, we had incurred an aggregate of RMB33.7 million in capital expenditures as at 30 June 2015, and we expect that the remaining RMB0.3 million will be incurred and fully settled by the end of 2015. These capital expenditures are funded by capital injection from the shareholders of our subsidiary in Egypt and loans from Hengshi Fiberglass.

The following table sets forth selective information about our Egypt Phase I Expansion Plan.

Location of production facilities	Planned annual designed production capacity	Target production commencement date	Total budgeted capital expenditure	Actual capital expenditure incurred as at 30 June 2015	Estimated capital expenditure in the second half of 2015
	(tonnes)		(RMB in millions)	(RMB in millions)	(RMB in millions)
Suez, Egypt	9,933	March 2016	34.0	33.7	0.3

Egypt Phase II Expansion Plan

We intend to further expand our production capacity in Suez, Egypt in 2016. We intend to lease land to construct facilities for our Egypt Phase II Expansion Plan. Our estimated aggregate capital expenditures for our Egypt Phase II Expansion Plan amount to RMB52.0 million, which will be incurred and fully settled by the end of 2016. These capital expenditures are expected to be funded by cash generated from our operations. For details, see “Future Plan and Use of Proceeds” in this prospectus.

The following table sets forth selective information about our Egypt Phase II Expansion Plan.

Location of production facilities	Planned annual designed production capacity	Target production commencement date	Total budgeted capital expenditure	Estimated capital expenditure in 2016
	(tonnes)		(RMB in millions)	(RMB in millions)
Suez, Egypt	10,539	September 2016	52.0	52.0

Planned Production Capacity Expansion in the United States

We currently plan to construct production facilities in the United States in order to optimise our supply chain in North and Latin America in the mid- to long term. We intend to have a more definitive plan in respect of the production capacity, construction schedule and capital expenditures once China Jushi completes its construction of fiberglass production facilities in the United States, so as to capture cost synergy arising from our fiberglass procurement from China Jushi. As at the Latest Practicable Date, the timing of construction of China Jushi’s facilities in the United States is not determined yet. The timing and implementation of the plan to construct our production facilities in the United States is also subject to factors including market conditions and demand for our products in North and Latin America. As at the Latest Practicable Date, we had not incurred any capital expenditure with respect to our planned production facilities in the United States.

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Considerations of Our Production Capacity Expansion Plans

The following table sets forth the estimated new addition of production capacity under our expansion plans. All the new capacity to be added from 2015 to 2017 under our production capacity expansion plans are designed to be suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector.

Expansion Plan	Estimated effective new addition of production capacity ⁽¹⁾	Estimated annualised new addition of production capacity ⁽²⁾ (tonnes)
2015		
Expansion		
• Hengshi Phase III Expansion Plan	10,882	30,020
• Egypt Phase I Expansion Plan	<u>4,966</u>	<u>9,933</u>
<i>Subtotal</i>	<u>15,848</u>	<u>39,953</u>
2016		
Expansion		
• Hengshi Phase IV Expansion Plan	8,703	29,064
• Egypt Phase II Expansion Plan	<u>5,270</u>	<u>10,539</u>
<i>Subtotal</i>	<u>13,973</u>	<u>39,603</u>
2017		
Expansion		
• Hengshi Phase IV Expansion Plan	<u>3,731</u>	<u>17,693</u>

Notes:

- (1) Calculated based on estimated number of months in operation in a given year.
 (2) Calculated on an annualised basis, assuming all machines and equipment are added on 1 January of a given year.

Taking into account the above expansion plans, the upgrade of the production capacity of our existing equipment in Tongxiang, Zhejiang province in China in 2015 and the planned upgrade of the production capacity of our existing equipment in Tongxiang, Zhejiang province in China and in Suez, Egypt in 2016, we estimate that (i) our annual effective designed production capacity of fiberglass fabrics used in the wind turbine blade sector will increase from 59,134 tonnes in 2014 to 109,602 tonnes, 155,027 tonnes and 184,389 tonnes in 2015, 2016 and 2017, respectively; and (ii) our annual designed production capacity of fiberglass fabrics used in the wind turbine blade sector will increase from 81,684 tonnes as at 31 December 2014 to 135,082 tonnes, 180,657 tonnes and 198,351 tonnes by the end of 2015, 2016 and 2017, respectively.

We believe that our production expansion plans are necessary to support increasing market demand from the wind turbine blade sector. We have also considered the following factors with respect to our production expansion plans:

- *Production capacity constraints in 2014 and indicative sales volume in 2015.* Before we commenced our Hengshi Phase III Expansion Plan and Egypt Phase I Expansion Plan, we experienced constraints on production capacity in 2014. As at the Latest Practicable Date, we had entered into purchase agreements with an indicative aggregate sales volume of approximately 93,009 tonnes to be delivered between 1 January 2015 and 31 December 2015 which is in excess of our annual designed production capacity as at 31 December 2014.
- *Strong customer base to support our future growth.* Our customer base covers all the leading wind turbine and blade manufacturers globally and in China. By leveraging our strong customer base and stable relationship with our customers, we have a proven record in respect of increasing our market share in 2013 when the wind turbine blade sector experienced a slowdown in newly installed capacity. We have also successfully expanded our customer base in the wind turbine blade sector in recent years, despite the high concentration in the wind turbine blade sector, and are in the process of developing new customers. Our number of customers in the wind turbine blade sector increased from

ten in 2012 to 13 in 2013 and further to 20 in 2014. From 1 January 2015 to the Latest Practicable Date, we further developed two customers in the wind turbine blade sector, including LM Wind Power, one of the largest global blade manufacturers. Given the nature of the wind turbine blade sector, our customers in the wind turbine blade sector are typically reluctant to change suppliers of fiberglass fabrics. As such, we believe that we are well positioned to adapt to evolving market conditions in the wind turbine blade sector and benefit from our strong relationship with our customers to capture growth potential in such industry.

- *Long-term growth potential of the wind turbine blade sector.* According to the DNV GL Report, the newly installed capacity of the wind turbines globally grew at a CAGR of 6.2% from 2009 to 2014, and is estimated to grow at a CAGR of 5.7% from 2015 to 2020. According to the DNV GL Report, the volume of fiberglass fabrics used in the global wind turbine blade sector grew at a CAGR of 9.9% from 2009 to 2014, and is estimated to grow at a CAGR of 7.5% from 2015 to 2020.

In addition, we strategically selected Egypt and the United States to expand our production capacity overseas in order to capture cost synergies arising from our fiberglass procurement from China Jushi, which has, or plans to construct, fiberglass production facilities in Egypt and the United States. We believe that our plan to expand production capacities in Egypt and the United States will also improve the efficiency of our supply chain to overseas customers and reduce our overall production and transportation costs, in addition to increasing our scale of operations, so as to achieve greater economies of scale, taking into account the following considerations.

- We have a considerable customer base in overseas countries, and these customers may be subject to potential duties imposed on products manufactured in China, in particular, anti-dumping duties. For example, the European Union initiated an anti-dumping investigation in 2011 on fiberglass fabrics imported from China, which it subsequently withdrew in 2012. If anti-dumping duties are imposed against fiberglass fabrics exported by us from China to certain countries or regions, the purchase costs of the relevant overseas customers may increase, which may result in a decrease in their purchases of fiberglass fabrics from our PRC-based subsidiaries. For details of the associated risks, see “Risk Factors — Risks Relating to Our Group — We are subject to risks associated with our international businesses and operations, including risks associated with our business and operations in Egypt and anti-dumping duties that may be imposed on our products.” Although we are not aware of any other anti-dumping investigation on fiberglass fabrics imported from China during the Track Record Period and up to the Latest Practicable Date and no anti-dumping duties have been imposed on our products, we intend to reduce the potential risks by constructing production facilities in Egypt and the United States and supply products manufactured overseas to our overseas customers, as anti-dumping duties are determined based on the country of origin. We believe that such strategy will effectively reduce the risks of anti-dumping or similar duties on products manufactured in our PRC-based facilities and delivered to our overseas customers.
- Our planned production facilities are located in close proximity to the respective local facilities of our key supplier of fiberglass, China Jushi. We entered into a strategic cooperation agreement with China Jushi, pursuant to which China Jushi will supply fiberglass to us, our subsidiaries (including our overseas subsidiaries) or other companies designated by us on a priority basis. As such, we believe that we will be able to achieve a stable supply of fiberglass to our overseas facilities. By leveraging the convenient locations of our planned overseas production facilities, we expect to be able to continue benefiting from the synergy that we have created through our historic procurement of fiberglass from, and cooperation with, China Jushi.
- By having the overseas production facilities, our delivery routes to overseas customers are expected to be shorter as compared to delivery from our production facilities in China, thereby reducing the delivery costs which are typically borne by our overseas customers and shortening the delivery time. We also expect to provide technical services to our overseas customers faster and more responsively by leveraging the convenient locations of our new production facilities. Taking into account these factors, we believe that our overseas facilities will offer cost advantages to our largest customers and enhance the loyalty of such customers to us.

Furthermore, our machines and equipment that are suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector can also be used to manufacture products with applications in other industries. We believe that such flexibility allows us to adjust our production and sales plan according to prevailing market conditions.

For risks involved in our expansion of production capacities, see “Risk Factors — Risks Relating to Our Group — Our ability to enhance production capabilities in both China and overseas is subject to risks and uncertainties.”

CERTIFICATIONS AND PERFORMANCE TESTS

Customer and International Certifications

The following two types of certificates typically apply to fiberglass fabrics used in the wind turbine blade sector.

- *Customer certification.* Customer certification is required by manufacturers of wind turbines and blades with respect to fiberglass fabrics used in wind turbine blades. In general, manufacturers of wind turbines and blades only procure certified fiberglass fabrics from their own certified suppliers, which pose a significant entry barrier for fiberglass fabrics manufacturers. Customer certification is considered to be complete when the relevant fiberglass fabrics satisfy the various designated quality and functionality tests as required by a customer and the customer places an order with us. These tests are typically conducted by manufacturers of wind turbines and blades in their own labs and/or qualified labs designated by the manufacturers of wind turbines and blades, so as to ensure the proper evaluation of the strength, modulus and anti-fatigue and other characteristics of fiberglass fabrics used in the blades. Costs associated with obtaining customer certification are generally mutually agreed on a case-by-case basis. Customer certification for a specific fiberglass fabrics product from an overseas manufacturer of wind turbines or blades typically takes two to three years and six months to two years in the case of a PRC manufacturer of wind turbines or blades.
- *International certificates.* International certificates are issued by renowned international certification bodies, such as DNV GL with respect to fiberglass fabrics used in the wind turbine blade sector and Lloyd’s Register with respect to fiberglass fabrics used in shipping vessels. Industry participants may voluntarily or upon customer request engage these international certification bodies to assess designated products and award certificates for such products upon such international certification bodies’ satisfaction that the relevant products meet their quality and functionality standards. These international certificates are valid for specific products for a period of four to five years, subject to renewal, provided that there are no significant changes to the design or quality of such certified products. Costs associated with obtaining international certificates are borne by the relevant applicants. It typically takes approximately one to two years to obtain and six months to one year to renew an international certificate for a specific fiberglass fabrics product.

We believe that gaining customer acceptance and recognition of our products is critical to the success of our business. Our products have attained various industry quality standards and have received certificates from our customers. As at the Latest Practicable Date, we had received DNV GL certificates and certification from overseas customers for all of our fiberglass fabrics used in the wind turbine blade sector.

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The following table sets forth the key international certificates we have obtained with respect to our fiberglass fabrics as at the Latest Practicable Date.

Name of certificate	Certification body	Product	Issue date	Expiry date	Application
Statement of Approval	DNV GL	Seven series of fiberglass fabrics products	From 11 February 2015 to 15 May 2015	From 28 February 2019 to 14 May 2019	For use in the wind turbine blade sector
Type approval certificate	DNV ⁽¹⁾	Seven series of fiberglass fabrics products	4 July 2011	30 June 2015 ⁽²⁾	For use in marine vessels
Certificate of approval of a fiber reinforcement	Lloyd's Register	Three series of fiberglass fabrics	19 September 2011	1 August 2016	For use in construction built under Lloyd's Register's survey

Notes:

- (1) DNV was the predecessor of DNV GL.
- (2) We are in the process of obtaining the relevant certificates and expect to receive the renewed certificates by 30 June 2016. We do not believe that our business operations will be adversely affected prior to the renewal of the relevant certificates primarily because these certificates are not mandatory and our customers focus more on their own certification of fiberglass fabrics.

Performance Tests

We conduct various performance tests on our products in order to obtain the relevant certificates, as well as to ensure the high quality of our products. Our well-equipped research and development centre and laboratories have allowed us to conduct all these tests in-house efficiently and cost-effectively.

Performance Test	Description
Test of physical characteristics	This test includes examination on moisture content, combustible matter content, mass per unit area and other items of the tested products.
Test of mechanical features of composite materials	This test includes examination on tensile properties and bending, cutting and anti-fatigue characteristics of the tested products.
Test of raw materials	This test includes examination on moisture content, combustible matter content, diameter of a single fiber and line density of our raw materials
Test of packaging materials	This test includes examination on edge pressure, breaking resistance and anti-pressing characteristics of our packaging materials.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Raw Materials and Packaging Materials

We purchase raw materials and packaging materials for our manufacture of fiberglass fabrics. Our raw materials primarily include fiberglass and polyester yarns, and our packaging materials primarily include cylinder paper, cardboard boxes, plastic pipes and plastic bags, as well as wood and steel plates. In 2012, 2013 and 2014 and the six months ended 30 June 2015, the cost of raw materials accounted for 62.3%, 64.4%, 73.6% and 74.5% of our total cost of sales, respectively, and the cost of packaging materials accounted for 4.0%, 3.8%, 4.6% and 4.8% of our total cost of sales, respectively.

During the Track Record Period, we typically entered into annual agreements with our supplier of fiberglass at around the same time as we entered into annual agreements with most of our customers for the

purchase of our products, which was typically at the year end or in the first quarter of a given year. As such, we are normally able to substantially lock in the unit cost of fiberglass, our key raw material, in order to deliver products under our sales contract with customers. Benefiting from such arrangement, we believe that although we may not be able to pass subsequent increases in the market price of fiberglass on to our customers by adjusting the pre-agreed selling prices, such increases, if any, will not materially adversely affect our expected profit under our sales contracts with customers. In the event of any significant fluctuations in our purchase prices of fiberglass, we also endeavour to liaise with our customers on a case-by-case basis if we think an adjustment on the selling price of our products is appropriate.

During the Track Record Period, our unit purchase price of regular fiberglass remained relatively stable with a slight decrease before 2015 and an increase in the first half of 2015, which was in line with the market price. For a sensitivity analyses of the impact to our results of operations during the Track Record Period from the fluctuation in the price of fiberglass, see “Financial Information — Description of Principal Consolidated Statements of Comprehensive Income Items — Cost of Sales.”

Suppliers

During the Track Record Period, we purchased substantially all of the fiberglass from China Jushi, either directly in 2012 and January 2013 or indirectly through Zhenshi from February 2013 to March 2015 under its centralised procurement policy. As at 30 September, 2015, Zhenshi directly held a 19.76% equity interest in China Jushi. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our aggregate purchases of raw materials from China Jushi and Zhenshi amounted to RMB257.3 million, RMB208.3 million, RMB395.4 million and RMB271.5 million, respectively, and accounted for 76.6%, 64.9%, 81.0% and 77.7% of our total cost of sales for the same periods, respectively. For details of our purchase of fiberglass from China Jushi, see “— Purchase from China Jushi” below.

From February 2013 to March 2015, we also purchased substantially all of our other raw materials and packaging materials from Zhenshi, primarily because Zhenshi adopted a centralised procurement policy in order to achieve operational efficiency. Under such centralised procurement policy, we typically provided Zhenshi with a short list of qualified suppliers for Zhenshi to choose from, taking into consideration their supply quality, price, product specification, production capacity, credit history and after-sales services. Among these qualified suppliers, Zhenshi further selected the supplier who offered the most favourable pricing terms and entered into purchase agreements with such supplier. During the Track Record Period, we have also reviewed the performance of such suppliers on a regular basis after they are selected. We have requested each supplier candidate to submit testing report of sample products for our review and we inspect their facilities and premises on an annual basis. In 2013 and 2014, we entered into annual purchase agreements with Zhenshi, and Zhenshi entered into back-to-back purchase agreements with the relevant suppliers. In 2012 and January 2013, we purchased all other raw materials and packaging materials directly from the relevant suppliers without involving Zhenshi. We have ceased procuring raw materials and packaging materials from Zhenshi and have purchased such materials directly from the relevant suppliers since 1 April 2015.

During the Track Record Period, we typically settled our purchases of fiberglass from China Jushi by bank accepted bills on a monthly basis and settle all the outstanding balances every six months. With respect to our purchases from Zhenshi, we typically settled the outstanding balances by using bills received from our customers, and to a lesser extent, by cash, on a monthly basis and were granted a credit term of 30 days.

In 2012, 2013 and 2014 and the six months ended 30 June 2015, purchases from our top five suppliers together accounted for 96.6%, 99.7%, 99.8% and 96.6% of our total purchases, respectively, and purchases from our largest supplier accounted for 87.9%, 94.2%, 98.6% and 56.5% of our total purchases, respectively. In 2012, our largest supplier was China Jushi, and in each of 2013 and 2014 and the six months ended 30 June 2015, our largest supplier was indirectly China Jushi (through Zhenshi).

Except for our purchases from China Jushi and Zhenshi Group, none of our Directors, their respective close associates or any of our Shareholders holding more than 5% of our issued share capital after the Global Offering, to the knowledge of our Directors, held any interests in any of our five largest suppliers during the Track Record Period.

Energy Supply

Production of fiberglass fabrics is dependent on the reliable supply of electricity. Electricity costs accounted for less than 1.0% of our total cost of sales in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. We obtain our electricity supply from the power lines of China Jushi, which are connected to the national grid, to benefit from the economies of scale and stable electricity supply that China Jushi experiences from the national grid. In 2012, 2013, 2014 and January 2015, we paid rates equivalent to the monthly average of the standard rates at which the local government charged China Jushi for the electricity supplied plus a premium of RMB0.02 per kilowatt-hour for the electricity we used. The premium was justified by the more stable electricity supply we could get from China Jushi which is essential to our production. Since February 2015, we have paid rates equivalent to the monthly average of the standard rates for the electricity we have used. The standard rates slightly increased during the Track Record Period. We typically settle our electricity expenses at the end of each month based on actual consumption. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant disruption in our operations due to insufficient supply of electricity, and we do not anticipate any significant interruption in electricity supply that would have a material impact on our business.

Purchases of Fiberglass from China Jushi

Fiberglass is the key raw material used by us to manufacture fiberglass fabrics. During the Track Record Period, we purchased substantially all fiberglass, directly or indirectly, from China Jushi and Zhenshi. In 2012, 2013 and 2014 and the six months ended 30 June 2015, our aggregate purchases of raw materials from China Jushi and Zhenshi amounted to RMB257.3 million, RMB208.3 million, RMB395.4 million and RMB271.5 million, respectively, and accounted for 76.6%, 64.9%, 81.0% and 77.7% of our total cost of sales for the same periods, respectively.

Background Information of China Jushi

According to the DNV GL Report, China Jushi, through its wholly-owned subsidiary Jushi Group Co., Ltd. (巨石集團有限公司), is the second largest fiberglass manufacturer worldwide and the largest fiberglass manufacturer in Asia in terms of sales volume by tonnage in 2014, accounting for approximately 17% and 29% of the global and Asian market shares during the same year, respectively. China Jushi has been listed on the Shanghai Stock Exchange in China under stock code “600176” since April 1999. As at 30 November 2015, China Jushi had a market capitalisation of approximately RMB20.7 billion. As at 30 September, 2015, Zhenshi held a 19.76% equity interest in China Jushi, and our chairman, non-executive Director and ultimate Controlling Shareholder, Mr. Zhang Yuqiang, was also the general manager and a director of China Jushi. In addition, Mr. Tang Hsin-hua, who was China Jushi’s supervisor and held a 0.77% interest in China Jushi as at the Latest Practicable Date, owned a 30% equity interest in our Company, and one director and one senior management member of China Jushi owned, in aggregate, less than 1.3% equity interest in our Company as at the Latest Practicable Date. Save as disclosed above, none of China Jushi’s directors, supervisors and senior management members was our Director or senior management member or held any equity interest in our Company as at the Latest Practicable Date.

Our Historical Commercial Arrangement with China Jushi and Zhenshi

Since our inception in September 2000, we have been sourcing fiberglass, directly or indirectly, from China Jushi and Zhenshi. In 2013 and 2014, we entered into annual purchase agreements with Zhenshi to buy fiberglass, which in turn sourced fiberglass from China Jushi on a back-to-back basis. Under such commercial arrangements, the purchase prices we paid to Zhenshi were typically around 1% to 2% higher than the prices paid by Zhenshi to China Jushi, representing fees we paid to Zhenshi for its coordination of our procurement process, including price negotiations and assuring proper quantities and specifications. In 2013 and 2014, we purchased an aggregate of 35,917 tonnes and 75,545 tonnes of fiberglass indirectly from China Jushi (through Zhenshi), respectively, representing aggregate purchase prices of RMB181.2 million and RMB359.1 million paid to Zhenshi, respectively.

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In 2012 and January 2013, we purchased fiberglass in aggregate of 53,962 tonnes directly from China Jushi, representing RMB259.8 million. We entered into a purchase agreement with Jushi Group, a wholly-owned subsidiary of China Jushi, which is in substantially the same form as our purchase agreements with Zhenshi. For details of the terms of such purchase agreements, see “— Key Terms of Our Purchase Agreement with Zhenshi” below.

Key Terms of Our Purchase Agreement with Zhenshi

We entered into annual purchase agreements with Zhenshi in 2013 and 2014. The key terms of such annual purchase agreements are set out below.

- *Price and quantity.* The prices of the products are set out in the purchase agreements, and the quantity and specifications for each procurement (such as type, design, size, materials) are specified in separate purchase orders we place.
- *Quality requirements.* The quality of the procured materials must comply with applicable national standards, environmental protection regulations and our manufacturing safety requirements. Where samples have been provided to us, the materials to be supplied must also conform to the same standards as the samples. Quality certificates and inspection reports are also required to be provided when the suppliers deliver the materials. The quality warranty period under the procurement contracts is typically 12 to 24 months, from the date when the materials have been accepted by us after inspection.
- *Transportation.* Suppliers are responsible for arranging the transportation of the materials at our costs and must deliver the materials to our designated warehouses or plants.
- *Payment.* We are granted credit periods ranging from 30 to 90 days, and the payments are typically settled on a monthly basis.
- *Delay and default.* With respect to any delay in the delivery of materials to us without legitimate causes and timely notices, suppliers are required to pay us liquidated damages representing 1% of our total purchase amount on a daily basis. If the delay exceeds prescribed thresholds ranging from three to 10 days, we are entitled to cancel the purchase order, purchase from a third party and require the relevant supplier to compensate us for the difference if our purchase price from the third party is higher than that from the original supplier, in addition to the liquidated damages to which we are entitled.
- *Confidentiality obligation.* Technical standards, laboratory data, drawings and other relevant documents and information that we provide to suppliers under the procurement contracts must be returned to us and may not be used for any other purposes. The confidentiality obligations of our suppliers survive the termination of procurement contracts.
- *Amendment, termination and renewal.* Our procurement contracts may be amended and renewed upon mutual consent. Unless a procurement contract is terminated as a result of force majeure or mutual consent, the party that intends to terminate a procurement contract before expiration must pay the other party damages under applicable laws to which the other party may be entitled.
- *Dispute resolution.* Disputes are to be submitted to the competent court where we are located.

Key Terms of Strategic Cooperation Agreement with Jushi Group

On 1 January 2015, we entered into a strategic cooperation agreement with Jushi Group with respect to the procurement and research and development of fiberglass. The key terms of such strategic cooperation agreement are set out below:

- *Procurement.* Jushi Group agrees to act as a strategic supplier of fiberglass for us and supply fiberglass to us, our subsidiaries or other companies designated by us on a priority basis. The specific supply

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volume and price will be determined by us and Jushi Group under purchase agreements to be separately entered into.

- *Research and development.* Jushi Group and we agree to establish information sharing mechanism in relation to the market information and technology development of fiberglass.
- *Scope of cooperation.* The cooperation under the agreement also covers subsidiaries of us and Jushi Group, in particular the respective subsidiaries of Jushi Group and us in Egypt.
- *Term.* The term of the agreement is from 1 January 2015 to 31 December 2017 and will be extended for another five years if there is no material breach during the term of the agreement.

Commercial Considerations for Sourcing Fiberglass from China Jushi

Our procurement of fiberglass from China Jushi has proven to be commercially successful. We intend to continue purchasing most of the fiberglass from China Jushi, and believe that our continued purchase of fiberglass from China Jushi will not have a material adverse effect on our business, results of operations and financial condition, after taking the following considerations into account:

- *Proven long-term relationship.* We have been sourcing fiberglass from China Jushi since our inception in 2000. During the Track Record Period and up to the Latest Practicable Date, we had not encountered any shortage or delay in the supply of fiberglass from China Jushi. We enter into annual procurement agreements with China Jushi which contain fixed prices for the supply of different types of fiberglass. Before entering into such an agreement, we have sought, and will seek, quotations from at least two independent fiberglass suppliers to ensure that the prices and terms offered by China Jushi in respect of the sale of fiberglass to us are fair and reasonable, in the interest of our shareholders as a whole and comparable to those offered by the other fiberglass suppliers.
- *Reputation and quality.* Most of the fiberglass procured by us is used as the base material to manufacture fiberglass fabrics in wind turbine blades, which pose significant challenges to the strength, modulus and anti-fatigue characteristics of the fiberglass. As such, we select suppliers of fiberglass carefully with a focus on reputation of the suppliers and quality of the fiberglass. According to the DNV GL Report, China Jushi, through its wholly-owned subsidiary Jushi Group, is the second largest fiberglass manufacturer worldwide and the largest fiberglass manufacturer in Asia in terms of sales volume by tonnage in 2014, accounting for approximately 17% and 29% of the global and Asian market shares during the same year, respectively. We believe that it has gained a strong position and reputation in the fiberglass industry. Quality of the fiberglass supplied by China Jushi to us has been proven over the past 14 years and has kept up with our evolving standards to satisfy the technical specifications required by our customers.
- *Strategic cooperation agreement.* To secure a long-term supply of fiberglass from China Jushi, we entered into a strategic cooperation agreement with Jushi Group on 1 January 2015, the term of which is from 1 January 2015 to 31 December 2017 and will be extended for another five years if there is no material breach during the term of the agreement. We believe that such agreement will help ensure a steady supply of fiberglass from China Jushi to us in both China and overseas markets. For details of the terms of such agreement, see “— Key Terms of Strategic Cooperation Agreement with China Jushi” above.
- *Mutual and complementary relationship.* In each of 2012 and 2013, we were the second largest customer to China Jushi. In 2014, we were the largest customer to China Jushi, contributing to 6.6% of its revenue. Taking into consideration our leading market position in our own industry and our position as China Jushi’s key customer, we believe that our procurement of fiberglass from China Jushi is mutual and complementary, and China Jushi was not, and is expected not to be, in a position to dictate the pricing terms in respect of its supplies of fiberglass to us.
- *Cost advantages.* The production facilities of China Jushi is located within 1,000 metres of our production facilities in China, which we believe has afforded us cost advantages in respect of

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transportation, as well as flexible delivery schedules. In addition, due to such close proximity, the fiberglass delivered to us by China Jushi does not require substantial packaging to ensure safe shipment, which in turn significantly reduces the packaging costs.

- *Certification process.* In line with industry practice, our customers implement certification systems to select suppliers of fiberglass fabrics. As fiberglass is the base material to manufacture fiberglass fabrics, substantially all of our customers in the wind turbine blade sector extend their certification process to fiberglass suppliers as well. The certification process of a fiberglass supplier by these customers typically takes three months to six months. We believe that our continuous procurement from China Jushi will enable us to leverage the existing certification in respect of fiberglass supplied by it.
- *Established cooperation on research and development.* As the technical specifications of our fiberglass fabrics and weaving techniques relate closely to the quality and specifications of fiberglass, we have established a cooperative relationship with China Jushi on research and development. In order to manufacture fiberglass fabrics of a given technical specification, we typically test various types of fiberglass provided by China Jushi and discuss with China Jushi to choose the type of fiberglass with technical specifications that are more suitable to the needs of our customers. We also cooperate with China Jushi to improve or change the functional parameters of fiberglass provided to us in order to develop customised products for our customers to the extent necessary. In addition, cooperation with China Jushi in the selection and development of the most suitable fiberglass is also critical for us to determine the weaving techniques so as to ensure the strength, modulus and anti-fatigue characteristics of our product, and reduce the potential waste of fiberglass during our manufacturing process. We believe that we have benefited, and will continue to benefit, from such cooperative relationship with China Jushi.

Based on the reasons above, we believe that our continued sourcing of fiberglass from China Jushi will allow us to (i) maintain a stable supply of fiberglass that satisfy our high quality standard and customised technical specifications, (ii) leverage the existing certifications from our customers on the fiberglass manufactured by China Jushi and (iii) take advantage of lower transportation and packaging costs. Taking into consideration these factors, we believe that our continued purchase of fiberglass from China Jushi will not have a material adverse effect on our business, results of operations and financial condition. In addition, we believe that given the dominant position of China Jushi in the global and Asian fiberglass markets, the risk associated with our purchases of most of the fiberglass we need from China Jushi is not a risk specific to us. For risks involved in our purchases of fiberglass from China Jushi, see “Risk Factors — Risks Relating to Our Group — We purchased all fiberglass used for the manufacture of our wind power related products and substantially all fiberglass used for the manufacture of our other products, directly or indirectly, from China Jushi, during the Track Record Period.”

Reliance on China Jushi

It is common industry practice for a fiberglass fabrics manufacturer to generally rely on one supplier for a majority of its fiberglass supplies due to the technical specification and consistency of quality in turn required by customers.

The reliance of a major fiberglass fabrics manufacturer in the wind turbine blade industry on a single fiberglass supplier for a majority of its fiberglass purchases is driven by the following:

- (i) Given the technical specification and consistency of quality required by customers in the wind turbine blade industry and the need for certification in respect of each of the fiberglass fabrics manufacturer, fiberglass supplier and the fiberglass fabrics product, fiberglass fabrics manufacturers benefit from a stable long-term relationship with their usual fiberglass supplier. It would not make commercial sense for a fiberglass fabrics manufacturer to have more than one or a limited number of suppliers given the costs and requirements associated with certification, testing, logistics and lower bargaining power associated with smaller orders.

- (ii) Due to the substantial cost associated with the transport of the fiberglass from the fiberglass supplier to the fiberglass fabrics manufacturer, it is commercially attractive for a fiberglass fabrics manufacturer to source its fiberglass mostly from a fiberglass supplier in its proximity to reduce transportation costs.

Accordingly, major fiberglass fabrics manufacturers in the wind turbine blade industry do not normally procure fiberglass from other fiberglass suppliers unless their usual fiberglass supplier cannot supply or satisfy its needs, in which case it may have to procure a particular type of fiberglass from other fiberglass suppliers. The Company has not experienced such need to procure from other fiberglass suppliers.

Given the above industry dynamics, the ability to work with a leading and stable supplier of fiberglass would help alleviate any risk of reliance on a limited number of suppliers. China Jushi, the main direct and indirect fiberglass supplier for the Group for the Track Record Period, is the second largest fiberglass manufacturer worldwide and the largest fiberglass manufacturer in Asia in terms of sales volume by tonnage in 2014, accounting for approximately 17% and 29% of the global and Asian market shares during the same year, respectively. China Jushi has been listed on the Shanghai Stock Exchange in China since April 1999 and had a market capitalisation of approximately RMB20.7 billion as at 30 November 2015. China Jushi has been producing fiberglass since 1980.

China Jushi currently has an annual total fiberglass production capacity of 1,140,000 tonnes. Approximately 50% or 570,000 tonnes of such capacity can be used for the production of fiberglass suitable for the manufacture of fiberglass fabrics used in the wind turbine blade industry, representing approximately eight times the fiberglass purchased by our Group in 2014. Moreover, according to the disclosures of China Jushi, its four main production bases are spread out in four locations, namely Tongxiang, Chengdu, Jiujiang in the PRC and Egypt. This enhances the stability of supply. While China Jushi supplies to other fiberglass fabrics manufacturers, Jushi Group has agreed to supply fiberglass to our Group on a priority basis under the strategic cooperation agreement between our Group and Jushi Group. With the geographical spread of the production bases of China Jushi and our Group's priority access to the production capacity of China Jushi, we believe that the risk of any material interruption of fiberglass supply from China Jushi is limited.

Procurement Policies, Our Plan to Diversify Supplier Base

During the Track Record Period, except for purchases we made directly from China Jushi in 2012 and January 2013 and after 1 April 2015, we purchased fiberglass and substantially all other raw materials and packaging materials from Zhenshi under its centralised procurement policy. We have ceased procurement of raw materials and packaging materials from Zhenshi and have directly purchased such materials from the relevant suppliers since 1 April 2015.

- *Fiberglass.* In addition to our intention to continue sourcing most of the fiberglass we need from China Jushi, we seek to locate alternative suppliers that are ready to provide fiberglass to us so as to ensure that our production will not be disrupted if China Jushi reduces the amounts of fiberglass it provides to us or ceases providing fiberglass to us altogether. We believe that there are a number of fiberglass suppliers that are able to provide fiberglass with comparable quality. For a list of the top five fiberglass suppliers in Asia, see "Industry Overview — Raw Materials and Suppliers — Suppliers of Fiberglass." We are currently communicating, and intend to continue communicating with the other top fiberglass suppliers in China and other smaller fiberglass manufacturers that are close to our headquarters in respect of the procurement of fiberglass, and purchases fiberglass from such suppliers if we experience any difficulties from procuring fiberglass from China Jushi. In particular, we have entered into an agreement with a fiberglass supplier for supply of fiberglass. The fiberglass to be purchased will be used to manufacture fiberglass fabrics to satisfy orders from customers which are in the non-wind power industries. We may purchase fiberglass from that fiberglass supplier going forward if its fiberglass can meet the requirements of the Company and the customers of the Company. However, we expect that China Jushi will continue to remain as our main fiberglass supplier. We believe that, in the event that we purchase fiberglass from alternative suppliers, our production will not be materially disrupted.

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In the event that we procure fiberglass from alternative fiberglass suppliers, our procurement costs may increase as we have enjoyed transportation and packaging cost advantages due to our convenient location in close proximity to China Jushi. For risks associated with potential increases in our procurement costs, see “Risk Factors — Risks Relating to Our Group — We purchased all fiberglass used for the manufacture of our wind power related products and substantially all fiberglass used for the manufacture of our other products, directly or indirectly, from China Jushi, during the Track Record Period.”

- *Other raw materials and packaging materials.* Between 1 April 2015 and the Latest Practicable Date, we had an aggregate of 14 suppliers of other raw materials and packaging materials, most of which had supplied products to us indirectly through Zhenshi prior to 31 March 2015. We typically have multiple suppliers for most of our raw materials (other than fiberglass) and packaging materials so as to minimise any potential disruption of our operations, maintain sourcing stability and secure competitive prices from suppliers. Other than China Jushi, we do not believe that we significantly rely on any particular supplier for our key raw materials and packaging materials.

Alternative Fiberglass Suppliers

According to the DNV GL Report, major wind turbine and blade manufacturers typically qualify two suppliers for each main type of fiberglass fabrics. As fiberglass is the base material to manufacture fiberglass fabrics, substantially all of our customers in the wind turbine blade industry extend their certification process to fiberglass suppliers as well. Eleven of our customers in the wind turbine blade industry contributing to 96.8% of our revenue for 2014 from products used in the wind turbine blade sector have confirmed that they have at least two certified fiberglass suppliers.

If China Jushi ceases to supply fiberglass to us, we will, with the approval of the relevant customer, seek to purchase the necessary fiberglass from the alternative fiberglass supplier which has been certified by that customer (the “Certified Alternative Supplier”). Some of our major customers have indicated their willingness to accept such alternative arrangement. Going forward, we plan to discuss with our customers about including provisions in the sales agreements to the effect that we will be entitled to source fiberglass from the customer’s Certified Alternative Supplier if China Jushi fails to supply fiberglass in respect of that order.

According to the DNV GL Report, the top five fiberglass suppliers by market share and their actual fiberglass productions in 2014 were Owens Corning Corporation (approximately 1,260,000 tons), China Jushi (approximately 1,020,000 tons), Chongqing Polycomp International Corporation (approximately 540,000 tons), Taishan Fiberglass Company Ltd. (420,000 tons) and PPG Industries, Inc. (approximately 420,000 tons). Such fiberglass productions represent approximately 17 times, 14 times, 7 times, 6 times and 6 times, respectively, of the fiberglass purchased by us in 2014. While it is conceivable that these fiberglass suppliers’ products include those not used in the wind turbine blade industry, it is in general flexible for fiberglass suppliers to switch production from fiberglass to be used in other industries to fiberglass to be used in the wind turbine blade industry. The risk of inadequate production capacities of fiberglass suppliers in the event that we have to switch to such fiberglass suppliers for fiberglass is therefore limited.

A customer in the wind turbine blade industry normally requires certification of the fiberglass fabrics manufactured by the Group (in addition to certifying the fiberglass suppliers). Thus if we were to engage the Certified Alternative Supplier to supply fiberglass in place of China Jushi, certification of the fiberglass fabrics manufactured with the fiberglass of the Certified Alternative Supplier may also be required. The fiberglass fabrics certification in respect of a switch of the existing fiberglass supplier to the Certified Alternative Supplier is expected to be completed more quickly than a fresh fiberglass supplier certification. The Company has received confirmation from two of its major PRC based customers that such a certification can be completed in around one month. We are of the view that the change of fiberglass supplier may have a temporary impact on our production but is not expected to cause long term material disruption to our production. We have not experienced any business interruption due to a disruption in supply since the inception of our business in 2000.

China Jushi keeps a dedicated surplus stock of fiberglass for supply to us in case of our urgent need. The surplus stock amounts to approximately 10,000 tonnes or approximately four to six weeks’ supply of fiberglass

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we usually requires. In the event that China Jushi faces operational difficulty in maintaining its normal level of production, the surplus stock enables us to continue production during the transitional period while we switch to use fiberglass to be supplied by the alternative fiberglass suppliers which have been certified by the relevant customers. We will also continue to monitor the financial strength of China Jushi and take necessary steps for the stability of supply of our fiberglass. Moreover, we usually complete the manufacturing of fiberglass fabric products approximately one to two weeks in advance of the delivery dates agreed with our customers. In the event that we have to switch to use fiberglass to be supplied by alternative fiberglass suppliers, any such fiberglass fabric stock can be delivered to the relevant customers to satisfy their orders during the transitional period.

As certification of fiberglass fabrics is only required by customers which are manufacturers of wind turbines and blades, we do not expect customers in non-wind power industries to require any certification of our fiberglass fabrics which are manufactured from fiberglass supplied by another fiberglass supplier. In the event that we purchase fiberglass from alternative suppliers, our production for products used in the non-wind power industries will not be materially affected by any need of certification.

Our Relationship with China National Building Materials Company Limited

China National Building Materials Company Limited (“CNBM”) was founded as a joint stock limited company on 28 March 2005 and was listed on the Stock Exchange in 2006. CNBM is mainly engaged in the manufacturing of cement, lightweight building materials, glass fiber and composite materials and engineering services. CNBM is a controlling shareholder of China Jushi and independent from our Company. As at 31 December 2014, CNBM held 33.82% of the shareholding of China Jushi and was the largest shareholder of China Jushi. As at 30 September, 2015, Mr. Zhang Yuqiang, our Chairman, non-executive Director and Controlling Shareholder, held approximately 70.28% of the shares in Zhenshi, which in turn holds approximately 19.76% of the equity interest in China Jushi. As at the Latest Practicable Date, Mr. Zhang Yuqiang directly held 0.002% of the shares in China Jushi. Mr. Zhang Yuqiang is also the general manager and a director of China Jushi. Mr. Zhang Yuqiang does not hold any equity interest in CNBM, nor does he hold any management or board position at CNBM. China Composites Group Corporation Limited (“China Composites”) is a subsidiary of CNBM. Its main business is manufacturing of wind turbine blades, carbon fiber, multi-functional flooring and other products such as fiber-reinforced plastic pipes and tanks. China Composites is not a direct competitor of our Company in the fiberglass fabrics market as it does not manufacture any fiberglass fabrics itself but uses fiberglass fabrics manufactured and supplied by us for its wind turbine blades. Revenue generated from our sales to China Composites was RMB32.2 million, RMB24.8 million, RMB44.8 million and RMB66.3 million in 2012, 2013, 2014 and the six months ended 30 June 2015, respectively. China Composites is not competing with our Company as we currently do not manufacture any carbon fiber products. However, if the percentage of wind turbine blades using carbon fiber continues to increase, we may consider diversifying into carbon fiber products, in which case there may be competition with China Composites in the future.

INVENTORY MANAGEMENT

We implement inventory control management in order to avoid under- or over-stocking. We set our production plan based on sales contracts we have entered into with our customers to ensure adequate supply and minimise our total inventory cost. Once we set our production plan and sales forecast for a year, we produce an annual budget for the procurement of materials. Based on on-going actual production and sales activities, we then establish a more detailed monthly budget for the procurement of materials. As our major supplier of fiberglass, China Jushi, is located in close proximity to our production facilities, we are also able to adjust our procurement of materials according to our production process, taking into account the lead time required for each type of materials, so as to minimise and maintain our inventory of materials at an appropriate level. We may temporarily increase the inventory of a certain material if we estimate that the price of such material is going to increase significantly in the near future. We have also installed an ERP system that provides us with real-time information about the movement of our raw materials and finished products, further strengthening our ability to constantly monitor and manage our inventory.

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CUSTOMERS, SALES AND MARKETING

Our Customers

Our customers primarily consist of (i) manufacturers of wind turbines and blades used in China and overseas, (ii) end customers in other industries and (iii) certain trading companies. A majority of our customers in the wind turbine blade sector manufacture their own blades and assemble wind turbines, and our remaining customers in such industry focus on blade production under their own brands or on an OEM basis. In addition to customers in the wind turbine blade sector, we also have customers in other industries, such as transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. During the Track Record Period, our customers included Vestas, Siemens, Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司), Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司) and Lianyungang Zhongfu Lianzhong Composites Group Co., Ltd. (連雲港中複連眾複合材料集團有限公司), which are renowned large-scale wind turbine and blade manufacturers, as the case may be. In 2012, 2013 and 2014 and the six months ended 30 June 2015, the number of our customers was 184, 197, 164 and 171, respectively, with which we have built business relationships for periods ranging up to ten years. In 2012, 2013 and 2014 and the six months ended 30 June 2015, the number of our customers in the wind turbine blade sector was ten, 13, 20 and 40, respectively. During the Track Record Period, there was no overlap between the major end-users of our products and our major suppliers.

During the Track Record Period, except for a smaller number of related parties as described below, all of our major customers were independent third parties. We typically offer a credit period of 30 to 90 days to our customers, which may be extended in practice to more than 90 days on a case-by-case basis, depending on the reputation, historical credibility and our relationship with the relevant customers. In particular, our PRC customers are normally accustomed to longer credit periods. For details associated with credit terms we offered to our customer, see “Risk Factors—Risks Relating to Our Group—Our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may materially and adversely affect our results of operations.” Our overseas customers typically settle their purchase prices by wire transfer, and our PRC customers typically use bank accepted bills to settle their purchase prices with us.

In 2014 and the six months ended 30 June 2015, our fiberglass fabrics were sold to customers in 18 countries overseas and Hong Kong and Taiwan, and to customers in mainland China, covering 20 provinces. The table below sets forth our revenue by location of our customers to which we delivered our products and as percentage of our total revenue for the period indicated.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB	%	RMB	%	RMB	%	RMB'000	% of total	RMB'000	% of total
	(in thousands, except for percentages)						(unaudited)			
Overseas markets										
Europe	173,466	39.3%	138,773	34.2%	195,962	28.9%	96,738	33.0%	131,933	26.4%
North America	104,978	23.8%	77,451	19.1%	136,468	20.1%	70,862	24.2%	94,372	18.9%
Asia ⁽¹⁾	27,974	6.3%	59,283	14.6%	74,006	10.9%	37,517	12.8%	8,944	1.8%
Latin America	875	0.2%	2,857	0.7%	5,853	0.9%	1,835	0.6%	1,617	0.3%
Australia	701	0.2%	555	0.1%	334	0.0%	242	0.08%	104	0.02%
Subtotal	307,994	69.8%	278,919	68.8%	412,623	60.8%	207,194	70.8%	236,970	47.4%
PRC market ⁽²⁾	132,969	30.2%	126,474	31.2%	265,977	39.2%	85,604	29.2%	263,208	52.6%
Total	440,963	100.0%	405,393	100.0%	678,600	100.0%	292,798	100.0%	500,178	100.0%

Notes:

- (1) Includes Hong Kong, Macau and Taiwan and excludes the PRC.
- (2) Excludes Hong Kong, Macau and Taiwan.

In 2012, 2013 and 2014 and the six months ended 30 June 2015, our five largest customers (with which we directly contracted, including trading companies) accounted for 76.9%, 75.8%, 64.5% and 65.8% of our revenue, respectively, and our largest customer accounted for 33.7%, 26.7%, 20.3% and 17.8% of our revenue during the

same periods, respectively. For risks relating to our concentration of customers, see “Risk Factors — Risks Relating to Our Group — Our customer concentration and the strong market positions of our major customers may limit our bargaining power when entering into contracts with these major customers and may materially and adversely affect our results of operations.” Our five largest customers for each of 2012, 2013 and 2014 are (in alphabetical order) Siemens group, Vestas group, Zhenshi Group, Zhenshi US and Zhongfu Lianzhong (中復連眾) group. Our five largest customers for the six months ended 30 June 2015 are (in alphabetical order) Guangdong Mingyang (廣東明陽) group, Siemens group, Sinomatech (中材科技) group, Vestas group and Zhongfu Lianzhong (中復連眾) group. Two of our five largest customers in 2012, 2013 and 2014 were members of the Zhenshi Group and Zhenshi US (of which Mr. Wang Yuan holds 60% interest, Zhenshi holds 30% interest and Mr. Tang Hsin-hua holds 10% interest) a majority of which were trading companies, which together accounted for 11.9%, 22.4%, 18.9% and 7.0% of our revenue in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. We intend to cease our sales to Zhenshi Group and Zhenshi US (except Huamei which is not a trading company) and make direct sales to the relevant end customers through our own subsidiaries after the Listing. For details of our historical sales to trading companies and plan to cease such sales, see “Business — Customers, Sales and Marketing — Trading-company Customers” below. For details of our sales to Huamei which are expected to be fully-exempt continuing connected transactions, see “Connected Transactions — Exempt Continuing Connected Transactions — De minimus transactions — Sale of fiberglass fabrics to Huamei”. Save as disclosed above, none of our Directors, their respective close associates or any of our Shareholders holding more than 5% of our issued share capital after the Global Offering, to the knowledge of our Directors, held any interests in any of our five largest customers during the Track Record Period.

Save for Zhenshi Group, there was no overlap between our major customers and major suppliers during the Track Record Period. Zhenshi Group accounted for 4.9%, 94.2%, 98.6% and 37.0% of our total purchases and 4.3%, 12.6%, 12.0% and 1.3% of our total revenue in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. Zhenshi Group contributed 3.4%, 8.0%, 11.4% and 1.0% to our gross profit for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. While Zhenshi Group will remain as a major supplier due to the supply of logistics services (which will be regulated as a continuing connected transaction) it will no longer be our major customer after Listing. We do not expect any overlap between our major customers and major suppliers after the Listing.

Contracts with Our Customers

We enter into two major types of agreements with our customers in relation to sale of our products: cooperation agreements and annual sales contracts.

Cooperation agreements

We have been actively seeking strategic cooperation opportunities with key customers to establish long-term relationships to sell our products and negotiate favourable prices for our products. In 2014, we entered into a five-year cooperation agreement with Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司), one of the largest blade manufacturers in China. Pursuant to such cooperation agreement, we are one of the key suppliers to such customer, which agrees to establish a long-term cooperation relationship with us. In 2014, we also entered into a five-year strategic cooperation framework agreement with the largest wind turbine manufacturer globally in terms of cumulative installed capacity as at the end of 2014. Under this agreement, we agreed to prioritise the supply of fiberglass fabrics to the relevant customer, and the relevant customer agreed to consider us as its preferred supplier of fiberglass fabrics.

With respect to the sale of our products to overseas customers, we also entered into a long-term umbrella agreement with one of our key customers, which is a globally leading wind turbine manufacturer. The key terms of such umbrella agreement are set out below:

- *Term.* The umbrella agreement has a term of three years.
- *Price and quantity.* The prices of our products and specifications for each procurement (such as type, design, quantity, etc.) are set out in the relevant purchase orders, as the case may be.

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- *Quality assurance.* Our products must be manufactured in accordance with the standards of the sample confirmed by our customer and are inspected according to the technical standards agreed by our customer and us. If our products fail to meet the agreed standards, we must replace the products and compensate the relevant customer for losses.
- *Transportation.* We are responsible for arranging the transportation of our products at our own cost and deliver such products to the warehouses or plants designated by our customers.
- *Payment.* Our customers are typically required to settle purchase prices within 30 days from the end of the month in which the products are received.
- *Confidentiality obligations.* We are required to keep all the relevant technical, business or commercial information, data or knowledge obtained in performing the sales contracts confidential and must not use such information for other purposes. Our confidentiality obligations remain to be in force for ten years after acceptance of the last item delivered under the relevant contracts.
- *Governing law and dispute resolution.* The umbrella agreement is governed by Swiss substantive law, to the exclusion of the United Nations Convention on Contracts for the International Sale of Goods, or the Arbitration Rules of the Singapore International Centre. Disputes shall be submitted to the International Chamber of Commerce for arbitration in Zurich, Switzerland.

Annual Sales Contracts

With respect to the sale of our products to customers, we have entered into sales contracts on an annual basis with most of our customers including Siemens and Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司). The key terms of a typical sales contract that we enter into with our customers are set out below:

- *Term.* These sales contracts typically have a term of one year.
- *Price and quantity.* The prices of our products are typically set out in the sales contracts. Certain annual sales contracts include indicative sales volumes whereas the actual sales volume is specified in a separate purchase order to be placed by our customers. The specifications for each procurement (such as type, design, size, materials, etc.) will be also set out in such separate purchase orders.
- *Quality requirements.* We are required to carry out our research and development, manufacturing and service functions in accordance with a quality management system certified according to ISO9001 and ISO14001 or a similar system approved by our customers. We are responsible for rectifying defective products and compensating our customers for the relevant costs and expenses incurred by them due to the rectification of defective products.
- *Warranty.* In some of our annual sales contracts, we agreed to repair, replace or accept return of products at our cost during a warranty period of up to two years if our products do not meet the pre-agreed quality standards. In addition, in two sales contracts, we agreed that, for a period of up to 20 years, if the wind turbines manufactured by our customers using products provided by us cannot meet their safety or other functionality requirements as a result of the design, material or manufacturing technologies of our products, we shall repair or replace the relevant fiberglass fabrics at our cost. During the Track Record Period, we did not place warranty deposits with our customers, nor did we experience any material claims with respect to the quality of our products.
- *Transportation.* Transportation of our products is arranged in accordance with the respective terms of the purchase orders. Under most circumstances, the transportation is arranged by us and the relevant costs are borne by us.
- *Payment.* Our customers are typically required to settle purchase prices within 60 to 90 days after they receive the products and invoices.

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- *Delay in delivery.* We are required to pay our customers liquidated damages representing 0.5% of the total purchase amount of any delayed part of the purchase order for each working day after the prescribed delivery date, provided that the total penalties for delay in delivery will not exceed 15% of the total purchase amount of the delayed portion of the purchase order.
- *Confidentiality obligations.* We are required to keep all the relevant information (including, without limitation, contracts, specifications, plans, drawings, models, samples and materials) obtained in performing the sales contracts confidential and must not use such information for other purposes without prior written consent of the relevant customers.
- *Dispute resolution.* Disputes shall be submitted to the competent courts where the customers are located, or be submitted to certain pre-agreed arbitration tribunals in the case of agreements with overseas customers.

We also entered into additional confidentiality agreements with certain customers in connection with our sales of products to such customers. Pursuant to such confidentiality agreements, we are required to keep confidential the relevant business, commercial, product, proprietary or technical information and data we receive from the relevant customers. The term of such confidentiality agreement is either one year or five years following the effective date of the agreement.

Foreign Currency Forward Contracts

Our overseas customers typically make their purchases with us in U.S. dollars. In addition, we also purchased a substantial portion of our machines and equipment from overseas markets in Euros. As such, we are subject to foreign currency risks. For details, see “Risk Factors — Risks Relating to Our Group — We are subject to foreign exchange rate risks and our risk management measures may not be effective.” To mitigate the foreign currency risks we face, we entered into foreign currency forward contracts with reputable commercial banks in China on a case-by-case basis to enjoy a pre-agreed fixed exchange rate during the Track Record Period. By entering into foreign currency forward contracts which set forth a pre-agreed fixed exchange rate, we are able to lock down the RMB-equivalent sales amount to be received by us and avoid any uncertainties with respect to our expected income. As such, we consider our foreign currency forward contracts as a measure to anticipate and lock down our expected revenue in the ordinary course of business in light of our substantial sales to overseas customers. We do not intend to expand such practice with the aim of generating income as one of our businesses. According to our internal policies, before we enter into any forward currency forward contracts, we consider the then prevailing exchange rates between the relevant foreign currency and Renminbi and the Renminbi-equivalent income under a supply contract with our customers at a certain exchange rate. All of our foreign currency forward contracts shall be initiated by our finance department, confirmed by our sales department and reviewed by our legal department. Most of our employees in these departments that are involved in our entering into foreign currency forward contracts have more than five years of accounting, financing, sales or legal experience and expertise and are able to assess the financial and legal risk associated with the relevant foreign currency forward contracts. Such contracts must be approved by our general manager and then by our chairman on a case-by-case basis. Such contracts are then implemented by our finance department based on the specific approvals. We believe that, during the Track Record Period, the intended purpose of our risk management measures was generally achieved, the foreign currency risks we have faced were partially mitigated and our risk management measures were overall effective.

In 2013 and the six months ended 30 June 2015, we recorded a gain on our foreign currency forward contracts at FVTPL through profit or loss of RMB5.8 million and RMB7.5 million, respectively. In 2014, we recorded a loss on our foreign currency forward contracts at FVTPL of RMB17.2 million. Our foreign currency forward contracts are typically denominated in the U.S. dollar and Euro.

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The following table sets forth, as at the dates indicated, the amounts of our unsettled foreign currency forward contracts.

	As at 31 December			As at 30 June	
	2012	2013	2014	2014	2015
<i>Currency</i>					
US Dollars ('000)	—	45,219	61,062	84,580	32,497

Sales and Marketing

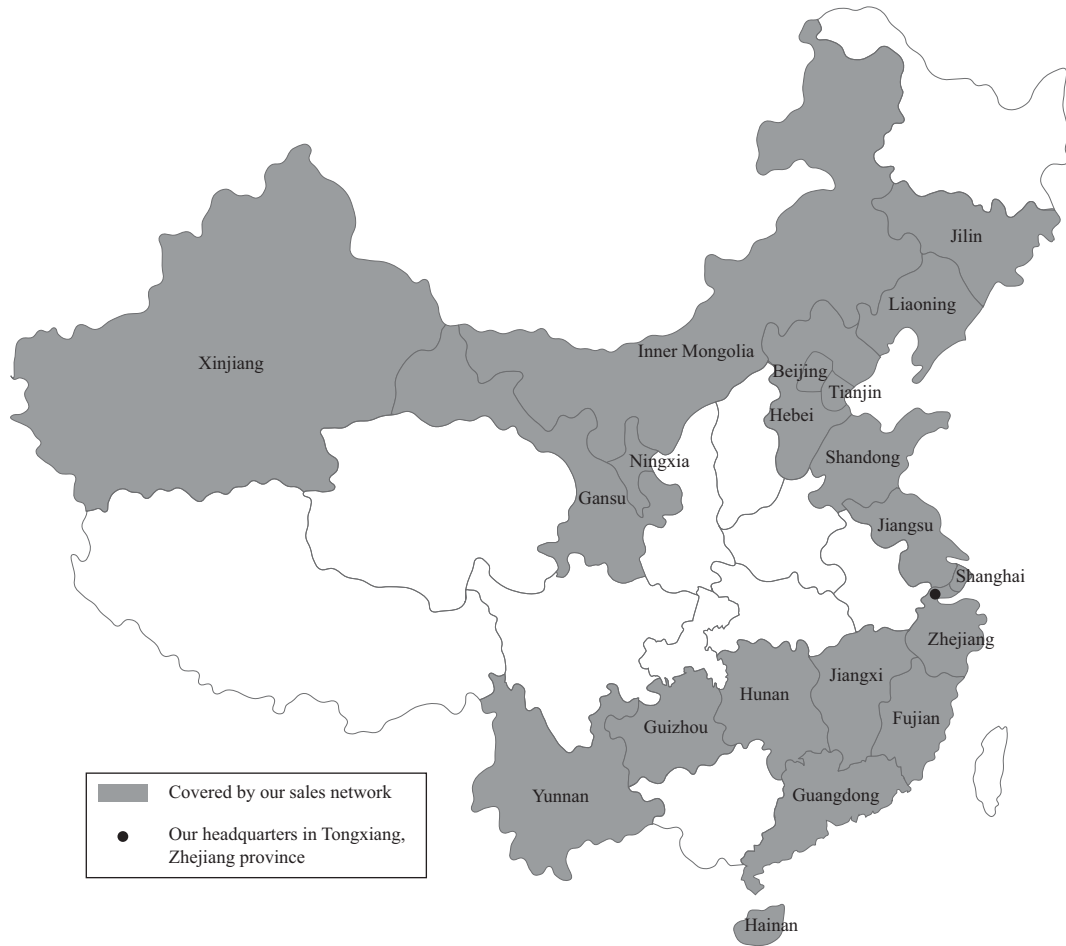
We conduct our business primarily through direct sales. We employ our own sales personnel, as our target potential customer base is generally concentrated and we have accumulated comprehensive knowledge and understanding of such customers. As such, we believe that our own sales personnel enable us to maintain high quality customer services and to establish and maintain long-term relationships with our customers. Our marketing efforts are primarily based on our close relationships and communications with existing and potential customers in various industries and regions where our products may be used. As our target potential customers are generally well known in the relevant industries, we typically identify them through market research and assign specific members of our sales team to reach out to each potential customer we identify. We endeavour to build and maintain strong business relationships with our customers through participation in their certification processes by leveraging our strong research and development capabilities, superior product quality, diversified product portfolio and stable supply of products. For details of the customer certification process, see “— Certifications and Performance Tests”.

Our sales force is organised in two subdivisions, covering overseas market and the PRC market separately. Each of these two subdivisions reports to our head of sales and marketing department. Our head of sales and marketing department is responsible for the execution of our overall strategies, policies and marketing objectives and incentive compensation plans once approved by our general manager, and directs, monitors and evaluates the performance of our sales staff. Sales and marketing to our customers in the PRC are handled by our sales department covering the PRC market at our headquarters in Tongxiang, Zhejiang province, and we do not have local sales representative offices in other regions of China.

We have established an extensive sales and marketing network to provide our products and services to our customers around the world. Our sales and marketing staff are responsible for information collection, marketing, sales and customer services. They also play an important role in providing support to our existing customers and meeting with prospective customers to assess and understand their requirements so that we can better cater to their needs. During our marketing process, our research and development team also works jointly with our sales and marketing team in preparation for product development and to share market resources with our customers. As at 30 June 2015, we had 20 sales and marketing employees. In order to effectively motivate our sales team, we determine our sales staff's compensation based on periodic evaluations of their performance, capability and contribution to our revenue and profit.

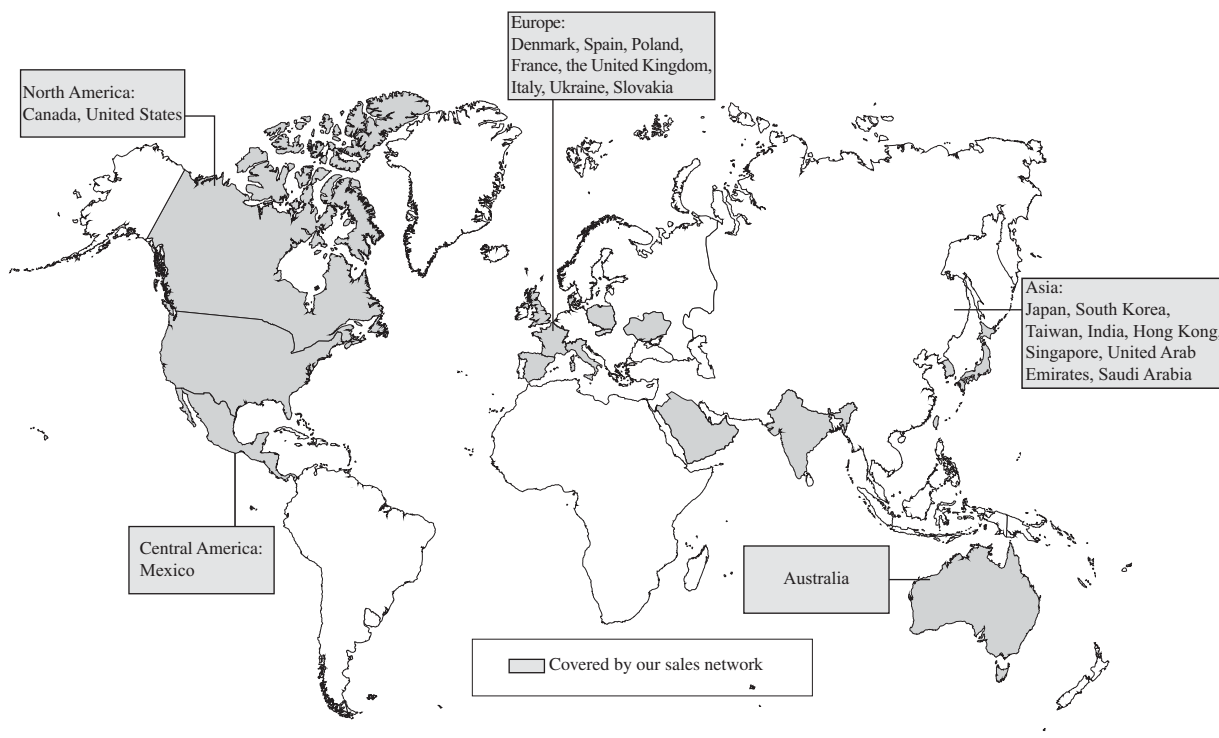
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The map below shows locations in the PRC (excluding Hong Kong, Macau and Taiwan) where our products were delivered in 2014 and the six months ended 30 June 2015.



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The map below shows locations in the overseas market (including Hong Kong, Macau and Taiwan) where our products were delivered in 2014 and the six months ended 30 June 2015.



Trading-company Customers

During the Track Record Period, we sold a portion of our products to certain trading companies who then re-sold our products to end customers. Most of these trading companies were Independent Third Parties, and the remaining were our related parties. Revenue generated from our sales to trading companies was RMB73.8 million, RMB114.2 million, RMB152.1 million, RMB73.7 million and RMB47.8 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, accounting for 16.8%, 28.2%, 22.4%, 25.2% and 9.6% of our total revenue for the same periods, respectively. Of these sales, revenue generated from our sales to trading companies that were also our related parties was RMB19.9 million, RMB54.1 million, RMB102.2 million, RMB40.0 million and RMB36.0 million, respectively, accounting for 4.5%, 13.4%, 15.1%, 13.6% and 7.2% of our total revenue for the same periods, respectively.

Our Directors confirm that during the Track Record Period, all of our sales to related parties were fair and reasonable to us and consistent with the terms offered to other trading companies that were Independent Third Parties.

The following table illustrates the number of our trading-company customers as at the dates indicated:

	Year ended 31 December			Six months ended
	2012	2013	2014	30 June 2015
Trading-company customers at the beginning of the period	106	73	64	62
Addition of new trading-company customers	17	21	25	6
Termination of existing trading-company customers	(50)	(30)	(27)	33
Trading-company customers at the end of the period	<u>73⁽¹⁾</u>	<u>64⁽²⁾</u>	<u>62⁽³⁾</u>	<u>35⁽⁴⁾</u>

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Notes:

- (1) Includes seven related parties, namely, Zhenshi Group (HK) Sinosia Technology Company Limited, Jushi International Group (Canada) Co., Ltd., Jushi France SAS, Jushi India FRP Accessories, Zhenshi Spain S.A., Temax Italia S.R.L. and Jushi Singapore Pte. Ltd.
- (2) Includes six related parties, namely, Zhenshi Group (HK) Sinosia Technology Company Limited, Jushi International Group (Canada) Co., Ltd., Zhenshi Spain S.A., Jushi France SAS, Jushi Singapore Pte. Ltd. and Jushi India FRP Accessories.
- (3) Includes ten related parties, namely, Zhenshi Group (HK) Sinosia Technology Company Limited, Zhenshi Spain S.A., Temax Italia S.R.L., Jushi France SAS, Jushi Singapore Pte. Ltd., Jushi International Group (Canada) Co., Ltd., Jushi Japan Co., Ltd., Jushi India FRP Accessories Co., Ltd., Jushi Spain S.A. and Zhenshi US.
- (4) Includes nine related parties, namely, Zhenshi US, Jushi India FRP Accessories Co., Ltd., Zhenshi Group (HK) Sinosia Technology Company Limited, Jushi Italia S.R.L., Jushi International Group (Canada) Co., Ltd., Jushi Singapore Pte. Ltd., Jushi France SAS, Jushi Japan Co., Ltd. and Jushi Spain S.A.

It is not our business focus to sell our products to trading companies, nor is it our intention to expand such customer base. We normally would not reject orders placed by trading companies as long as we are able to ensure adequate supply to our end customers. We consider our trading-company customers as normal customers, and we do not enter into any distributorship agreement with any of our trading company customers, nor do we set any geographic or other exclusivity or pricing guidance with respect to their re-selling of our products to end customers. Given we did not devote significant marketing efforts to maintain our trading-company customers, their number fluctuated from year to year during the Track Record Period due to natural changes in market demand and conditions. We normally agree with the relevant customers on price and volume which are set forth in purchase orders. Our relationship with the relevant trading-company customers is seller and buyer relationship, and similar to our sales to other customers, our revenue is recognised once the risks and rewards of ownership of our products are transferred to the trading companies upon the delivery of our products. We do not allow our trading-company customers to return our products except for defective products as agreed by both parties, nor do we set any minimum purchase amounts for our these customers. During the Track Record Period, we had no sales returns from our trading-company customers. We normally offer a credit period of 30 to 120 days to our trading-company customers, and these customers typically settle their payments by cash or by bank accepted bills. During the Track Record Period, we did not experience any difficulties recovering accounts receivables from our trading-company customers, nor did we have any disputes with them.

The manufacturers of wind turbines and blades, which are the end users in the wind turbine blade sector, normally directly make purchases from suppliers of fiberglass fabrics. As such, it is not common to involve trading-company customers in such process, primarily because (i) these end users place great emphasis on directly controlling the quality of fiberglass fabrics, and (ii) the wind turbine blade sector is relatively concentrated. Trading companies are more commonly involved for sales of fiberglass fabrics used in other industries as the barriers to entry for other industries are lower and the end customers are less concentrated in these industries. During the Track Record Period, substantially all of our trading-company customers targeted end users in non-wind power industries. With respect to the wind turbine blade sector, we sold our products to certain related-party trading companies in overseas market to connect with, and provide customer services to, the relevant end users in a more efficient way, as these related parties were normally in close proximity to these end customers.

As part of our business strategy, we endeavour to focus on building direct business relationship with end users in the wind turbine blade sector and do not intend to expand the scale of our trading-company customers targeting customers in such industry. We also intend to gradually cease our sales to certain related parties and make direct sales to the relevant end users through our own subsidiaries. In 2014, Zhenshi Group (HK) Sinosia Technology Company Limited, Zhenshi US and Zhenshi Spain S.A. were our key related-party customers. With respect to sales made by these three related parties, we intend to establish joint ventures in the United States and Hong Kong in each of which we will hold a controlling interest, and make direct sales to the Spanish market. Our joint venture partners in the United States and Hong Kong are expected to be the same Independent Third Parties which previously held equity interests in our related-party customers. Zhenshi, which held 30% interests in our related-party customer in the United States, had also agreed to procure such related party to hand over its business to us to the extent relating to the sales of our products. Zhenshi has also agreed to procure our related-party customers in Hong Kong and Spain, each a subsidiary of Zhenshi, to hand over their respective businesses to us to the extent relating to the sales of our products to facilitate our direct sales to the end customers. During these handover processes, we intend to review the books and accounts relating to the historical sales of our

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products to the relevant end customers, employ the key sales staff that have sold our products to the relevant end customers, and actively and directly communicate with the end customers on various matters in order to maintain and strengthen our business relationship with them, including the terms of sales contracts, customised technical specifications of our products and customer services required by the relevant end customers. We do not intend to acquire any assets or equity interest in the relevant related parties during the handover process. The planned joint venture in the United States has been established, and we expect that the planned joint venture in Hong Kong will be established prior to the Listing. We already commenced direct sales to the Spain market in January 2015.

We believe that the risks of these end users not becoming our customers as a result of our efforts to make direct sales to them are remote, taking into consideration the following: (i) our end customers are the ultimate decision makers for the purchases of fiberglass fabrics, and their key purchasing criteria are the quality and price of fiberglass fabrics, instead of their relationships with the relevant related parties; (ii) our end customers have certified and accepted the fiberglass fabrics supplied by us and are normally reluctant to change suppliers, primarily due to the additional time and costs to undergo the certification process again before the fiberglass fabrics from the new suppliers can be used; and (iii) we do not expect that the aforementioned three related parties will compete with us after their handover of the relevant business to us, because our Company entered into a Non-competition Agreement with Mr. Zhang Yuqiang, our ultimate Controlling Shareholder, on 2 December 2015, in order to avoid any potential competition between the businesses of our Controlling Shareholders and our core business. Further details about the Non-competition Agreement are set out in the section headed “Relationship with Our Controlling Shareholders — Non-competition Agreement” in this prospectus. Considering the above, we believe that we are able to maintain our previous sales in connection with the above end users in the relevant markets and significantly reduce our sales to related parties in the future.

Pricing Strategies

Product specifications, including technical requirements, are the main factors affecting our pricing of a specific product. In addition, customised products produced in line with specific customer requirements are generally more expensive than standardised products, due to special raw materials required, tailored manufacturing processes, additional research efforts or extra packaging and shipping requirements. In addition, we typically increase the price of our fiberglass fabrics if we provide cutting services. For details of our cutting services, see “— Value-added Services Relating to Our Products”.

We usually adopt a cost-plus pricing strategy to determine the prices of our fiberglass fabrics. The factors we consider when pricing our products include the costs of the raw materials, the costs of production, our intended profit margins and the prevailing market prices of similar products. We also take into account factors such as competition, market demand and changes and improvements in technical innovations when pricing our products, and may adjust prices of our products to customers on a case-by-case basis according to the industries, market position, credibility, purchase record, purchase volume and settlement terms of the relevant customers.

The cost of materials we purchase from our suppliers is usually set out in purchase agreements, and the quantity and specifications for each procurement (such as type, design, size and materials) are specified in separate purchase orders we place with our suppliers. The purchase prices are determined by us and our suppliers by arm’s length negotiation. In particular, with respect to our procurement of fiberglass from China Jushi, our strategic fiberglass supplier, we enter into annual procurement agreements with China Jushi which contain fixed prices for the supply of different types of fiberglass. Before entering into such an agreement, we have sought, and will seek, quotations from at least two independent fiberglass suppliers to ensure that the prices and terms offered by China Jushi in respect of the sale of fiberglass to us are fair and reasonable, in the interest of our shareholders as a whole and comparable to those offered by the other fiberglass suppliers.

Customer Services

Customer Services Personnel

For our sales both in China and overseas, our customer services start from product development as most of our products are tailored to applications in specific industries and/or requirements of our customers. We closely communicate with our customers to understand their intended applications of our fiberglass fabrics in order to

assess the associated technical specifications and how we can achieve such specifications through research and development. Our research and development department works closely with our customers to develop customised products that satisfy our customers' requirements and provide technical support both on a regular basis through periodic on-site visits and on an ad hoc basis upon request. Our sales and marketing team has also devoted substantial resources on customer interactions through follow-up calls and on-site visits to measure customer satisfaction with our products and understand the real-time needs of our customers. Once we receive requests or complaints from our PRC-based customers, we typically arrange our staff to conduct on-site visits within two business days to resolve such requests or complaints. We also endeavour to resolve any requests or complaints from our overseas customers within 15 business days and conduct on-site visits if required by our customers. In addition, our senior management members visit our key customers in China and overseas in person at least once a year to strengthen the business relationship. As at 30 June 2015, we had 19 staff fully devoted to customer services, while our research and development and sales and marketing personnel also provided services to our customers through on-site visits and follow-up calls.

Warranty

If, under appropriate storage conditions, our products experience materially negative change in technical parameters within one year, we are responsible for replacing the relevant products with new ones. In some of our annual sales contracts, we have agreed to repair, replace or accept return of products at our cost during a warranty period of up to two years if our products do not meet the pre-agreed quality standards. In addition, according to a sales contract with one of our customers entered into in each of 2012 and 2013, for a period of up to 20 years, if the blade manufactured by the relevant customer using products provided by us cannot meet its safety or other functionality requirements as a result of the design, material or manufacturing technologies of our products, we shall repair or replace the relevant fiberglass fabrics at our cost. The sales volume under such sales contract entered into in 2012 was 1,499 tonnes with a sales amount of RMB13.3 million, representing approximately 3.0% of our revenue in 2012. The sales volume under such sales contract entered into in 2013 was 3,007 tonnes with a sales amount of RMB27.2 million, representing approximately 6.7% of our revenue in 2013. During the Track Record Period, no provision was made for the warranties in our sales contracts on the basis that (i) it was uncommon for us to provide warranties of up to 20 years and the revenue involved in the relevant contract was insubstantial, (ii) we have not experienced any material warranty claims for a decade, and (iii) we do not expect to have significant warranty obligations in the future based on our historical experience in more than a decade and the fact that our customers in the wind power industry maintain a robust certification process for quality control purposes. During the Track Record Period and up to the Latest Practicable Date, we did not encounter material quality defects or any significant product liability claim.

Products Return

Due to the stringent quality control measures we employ that apply to our entire production process, the high entry barrier of the certification processes our customers implement and the on-site product inspections conducted by our customers when such products arrive at the relevant customers' warehouses, we generally do not accept any return of products by our customers, unless the quality issue is material as agreed by both parties or confirmed by an independent third party or otherwise agreed by us.

In December 2012, a major overseas customer returned a batch of our products to us due to its change of blade specifications after our products had been manufactured. We accepted the return of such products without any charge to the relevant customer and bore the transportation and customs clearance expenses arising from the product return, in order to maintain good relations with such customer, and such customer subsequently became our largest customer in 2014. The original purchase price of the returned products was approximately RMB13.6 million. This batch of products was originally designed for use in the wind turbine blade sector, and was also suitable for use in certain other industries. We have been reselling this batch of returned products to customers in other industries since December 2012 and expect to finish re-selling the returned products by the end of 2016. Our Directors confirm that such product return was merely a one-off incident and did not have any material adverse impact on our business operations and financial condition.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we did not encounter requests for the return of our products after they were inspected and accepted by our customers.

TRANSPORTATION

We deliver our products to destinations specified by our customers subject to the relevant purchase orders. For overseas customers, we typically deliver our products to designated ports by water transport, and for customers located in the PRC, we typically deliver our products to designated locations by trucks. During the Track Record Period, we engaged certain related parties as well as third parties to deliver our products to customers. These related parties consisted of Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd. (振石集團浙江宇石國際物流有限公司), Shanghai Tianshi International Logistics Co., Ltd. (上海天石國際貨運代理有限公司), Jiaxing Yushi International Logistics Co., Ltd. (嘉興市宇石國際貨運代理有限公司), Jiujiang Yushi International Logistics Company Limited (九江宇石國際物流有限公司) and Sichuan Yushi International Logistics Company Limited (四川宇石國際物流有限公司). For details of our continuing connected transactions with respect to transportation services, see “Connected Transactions—Non-exempt Continuing Connected Transactions Subject to the Reporting, Announcement Requirements of the Listing Rules.” Considering that there are numerous logistics service providers in both Zhejiang province and other regions in China, our Directors believe that we do not rely on any particular logistics service provider.

RESEARCH AND DEVELOPMENT

We believe that one of our main competitive strengths is our research and development capability. We have been focusing on the research and development of fiberglass fabrics used in the wind turbine blade sector and plan to devote more resources to enhance the technical specifications of our fiberglass fabrics for use in wind turbines. Supported by our strong research and development capabilities, we believe we can offer fiberglass fabrics to compete with products offered by our competitors, including fiberglass fabrics and carbon fiber products used in the wind turbine blade sector. We have established a strong research and development centre in 2008, which was approved by the Department of Science and Technology of Zhejiang province (浙江省科學技術廳) in 2010 as a Provincial-level Research and Development Centre of High and New Technology Enterprise (省級高新技術企業研究開發中心). Our research and development centre consists of the following:

- a dedicated research and development department, primarily responsible for the design, research and development of fiberglass fabrics products, product applications in various industries and production process and related production equipment; and
- a laboratory, primarily focused on the research and development of functional performance of fiberglass fabrics, which is responsible for the research and development of various product testing technologies, and conducting various reliability tests for the performance and physical mechanics of our products in development.

As at 30 June 2015, our research and development team had 117 employees, consisting of 26 employees in the research and development department and 91 employees in other departments such as the production and quality control departments who were also involved in our research and development activities. Key members of our research and development team have, on average, over ten years of experience in the fiberglass and fiberglass fabrics industries. Our laboratory has also applied for CNAS-AL01 certification (management system and testing capacity) to be issued by China National Accreditation Service for Conformity Assessment (中國合格評定國家認可委員會), and we expect to receive such certification by the end of 2015.

As at the Latest Practicable Date, our research and development centre had 32 machines for research purposes, allowing us to provide a wide range of tests on technical specifications of our products, such as the main performance characteristics of fiberglass, including strength, modulus and anti-fatigue characteristics and other mechanical features, upon request by our customers. To strengthen our research and development capabilities, we purchased advanced research and development and test equipment which utilises the leading technologies in the industry. We have also accumulated plenty of experience in conducting various testing assignments in order to meet the strict technical requirements of our customers. We have also obtained a number of intellectual property rights relating to testing methods and applications.

In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our research and development expenditures were RMB15.3 million, RMB13.3 million, RMB21.0 million, RMB8.8 million and RMB15.6

million, respectively, representing approximately 3.5%, 3.3%, 3.1%, 3.0% and 3.1%, respectively, of our total revenue during the same periods.

Due to our strong research and development capabilities in fiberglass fabrics, we were recognised as a High and New Technology Enterprise (高新技術企業) in 2012. In addition, we are the key participant in the development and formulation of the PRC industry standard of fiberglass stitched fabrics (玻璃纖維縫織物 GB/T 25040-2010). Moreover, our research and development efforts have also resulted in a number of patents. See “— Intellectual Property” for details. In addition to our internal research and development efforts, we have also sought to establish strategic relationships with various business partners and other parties to enhance our research and development capabilities. We have also established cooperative relationships with universities and colleges to leverage their leading industry studies and research, including Zhejiang University of Science and Technology (浙江理工大學) and Jiaying College (嘉興學院). Such relationships we have with universities and colleges in the PRC cover a broad spectrum of research areas, including, among others, the development of innovative fiberglass fabrics, and their potential applications and the research of specialty fiberglass fabrics, as well as the development of new testing technologies for fiberglass fabrics.

QUALITY CONTROL

Overview

We maintain a long-standing emphasis on quality control programmes, as we believe that quality control is essential to our continued success. As at 30 June 2015, we had a quality control team comprised of 17 employees, among whom over 60% had a bachelor’s degree or a junior college degree or above.

Quality Control Procedures and Systems

We currently implement 38 detailed internal quality control procedures, covering all aspects of our operations from procurement, production, product testing and inspection to after-sales customer service. For instance, our process quality control and semi-finished products monitoring and control procedure (過程品質控制與(半)成品監測控制程式) provides systematic monitoring of, and arrangements controlling, our manufacturing processes for all products, including the inspection of raw materials, packaging materials, semi-finished products and finished products. We have also developed an internal system that enables us to track in real time any quality issues in the finished products back to the original raw material.

Below are some key components of our quality control procedures.

- *Raw Materials.* Our quality control team inspects all of our raw materials upon delivery. Given the importance of the quality of fiberglass as raw material to our products, we conduct frequent reviews and analyse the data generated during our production processes to timely identify defects in the fiberglass we have procured. We return to suppliers any raw materials that do not pass our production data inspection. In addition, we analyse and record the physical and mechanical features of the fiberglass fabrics that we produce as part of a continual monitoring and verification process for the quality and features of the fiberglass we have procured.
- *Production Monitoring.* In each key step of our production processes, we implement inspection and testing procedures prepared and reviewed from time to time by members of our senior management in charge of production. In addition to the testing and measurement procedures for our fiberglass fabrics, which are integral parts of our production processes, we also conduct periodic inspections on our other products, machinery and equipment. We conduct inspection on samples of our fiberglass fabrics seven times each week and carry out inspections on all main technical parameters of the fiberglass fabrics that are still under production. Quality analysis reports are prepared on a weekly and monthly basis that are then submitted to our senior management as well as the relevant production team, to further improve or refine our production process.
- *Product Testing.* We have advanced testing equipment and technologies that maintain the high quality and reliability of our fiberglass fabrics, as well as our other products. We conduct testing for

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each of our end products to ensure that such products meet the relevant specifications and requirements prior to delivery to our customers. Our product testing covers extensive parameters in connection with the physical and mechanical features of our products, including the density, tensile strength, tensile modulus and anti-fatigue characteristics of such products. We implement advanced testing equipment and stringent quality control measures during the entire production process to ensure the quality of our products. We also have specific packing and delivery instructions for each of our products to ensure the safety and quality of our products during transportation. In particular, for those products that are cut into customised shapes upon the request of our customers, we carefully tailor the packing of such products to ensure they retain their shapes during transportation.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any customer complaints that had a material adverse effect on our business or results of operation.

Certifications and Qualifications

As at the Latest Practicable Date, we have obtained a number of international certificates for our fiberglass fabrics, indicating qualifications of our products for certain industry standards. In addition, in line with industry practice, we also obtained certification from our major customers in the wind turbine blade sector who are global leaders in the manufacture of wind turbines, the process of which is considered to be complete when the relevant fiberglass fabrics satisfy the various designated quality and functionality tests as required by our customers and the customer places an order with us. These customer certification and international certificates are set forth in “— Certifications and Performance Tests.” In addition to these certifications for our products, we also obtained a number of certifications and qualifications with respect to our design, development and production of fiberglass fabrics and various management systems.

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The following table sets forth the key certifications and qualifications with respect to our design, development and production of fiberglass fabrics and management systems as at the Latest Practicable Date.

Name of certificate	Issue date	Expiry date	Quality standard
<ul style="list-style-type: none"> • GB/T 19022-2003/ISO10012:2003 Certificate of Conformity for Measurement Management Systems (GB/T 19022-2003/ISO10012:2003 測量管理體系認證證書) 	20 October 2011	19 October 2016	According to this certificate, our Company's product quality, operating, energy saving and environmental management systems has satisfied the requirements of GB/T 19022-2003/ISO10012:2003.
<ul style="list-style-type: none"> • ISO14001:2004 Assessment Certificate (ISO14001:2004 認證證書) 	2 June 2015	5 May 2018	According to this certificate, our Company's environmental management system related to production of stitched fiberglass fabrics has satisfied the requirements of ISO14001:2004.
<ul style="list-style-type: none"> • GB/T 28001-2011 Assessment Certificate (GB/T 28001-2011 認證證書) 	2 June 2015	18 June 2016	According to this certificate, our Company's occupational health and safety management systems related to design, development and production of stitched fiberglass fabrics have satisfied the requirements of GB/T 28001-2011.
<ul style="list-style-type: none"> • GB/T 19001-2008 idt ISO9001:2008 Assessment Certificate (GB/T 19001-2008 idt ISO9001:2008 認證證書) 	2 June 2015	29 May 2017	According to this certificate, our Company's design, development and production systems of stitched fiberglass fabrics have satisfied the requirements of GB/T 19001-2008 idt ISO9001:2008.

INTELLECTUAL PROPERTY

As at 30 June 2015, we had obtained 43 patents in the PRC and were in the process of applying for registration of 14 patents in the PRC. As at 30 June 2015, we had four registered trademarks in the PRC.

We recognise the importance of protecting and enforcing our intellectual property rights. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. In order to protect our intellectual property rights, we enter into confidentiality agreements with our key employees that provide that all relevant intellectual properties developed by our employees during their employment with us become our intellectual properties and are treated as trade secrets. Additionally, we also follow procedures to ensure that we do not infringe on the intellectual property rights of others and that we are not engaged in the sale of counterfeit products.

We were not aware of any material infringement of our intellectual property rights as at the date of this prospectus and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights. We are not aware of any pending or threatened claims against our Group relating to the infringement of intellectual property rights owned by third parties. Details of our registered intellectual property rights which we consider to be or which may be material to our business are set out in the section headed "Statutory and General Information — B. Further Information about Our Business — 2. Intellectual property rights of the Group" in Appendix V to this prospectus.

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AWARDS AND RECOGNITIONS

As a result of the quality and strong reputation of our products, our creditworthiness and our contribution to the community, we have been given the following awards and recognitions.

Awards/Recognitions	Year of receipt	Issuer of award
High and New Technology Enterprise (高新技術企業)	2009 (renewed in 2012)	Zhejiang Provincial Department of Science and Technology, Zhejiang Provincial Department of Finance, Zhejiang State Tax Bureau and Zhejiang Local Tax Bureau (浙江省科學技術廳、浙江省財政廳、浙江省國家稅務局、浙江省地方稅務局)
Provincial-level Research and Development Centre of High and New Technology Enterprise (省級高新技術企業研究開發中心)	2010	Zhejiang Provincial Department of Science and Technology (浙江省科學技術廳)
Famous Brand Product of Zhejiang Province (浙江名牌產品)	2010	Zhejiang Provincial Bureau of Quality and Technology Supervision (浙江省質量技術監督局)
Certificate of National Key New Product (國家重點新產品證書)	2011	The Ministry of Science and Technology (科學技術部)
Green Enterprise of Zhejiang Province (浙江省綠色企業)	2011	Zhejiang Provincial Economy and Information Commission and the Zhejiang Environmental Protection Bureau (浙江省經濟和信息化委員會、浙江省環境保護廳)
Model Project of Industrialisation under National Torch Programme Project (國家火炬計劃產業化示範項目)	2012	Torch Programme Project High Technology Industries Development Centre, the Ministry of Science and Technology (科學技術部火炬高技術產業開發中心)
Supplier of the Year Award	2008 and 2014	Vestas
Excellent Supplier Award	—	Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司)

COMPETITION

Our products are mainly used in wind turbine blade sector, and to a lesser extent in other industries such as transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. As such, we face competitions in various sectors, and the identities of our key competitors vary by the use of our products.

Fiberglass fabrics used in wind turbine blades. The wind turbine blade sector is one of the largest end markets for fiberglass fabrics. The global market of fiberglass fabrics used in wind turbine blades is relatively concentrated with high barriers to entry. According to the DNV GL Report, in 2014, the top seven manufacturers accounted for approximately 89.5% of the total global sales volume of fiberglass fabrics used in wind turbine

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blades, among which we were the third largest manufacturer with a global market share of approximately 14%. We face direct competition both in overseas markets and China in respect of fiberglass fabrics used in wind turbine blades. Our major competitors in respect of fiberglass fabrics used in wind turbine blades include SAERTEX GmbH & Co. KG, which is based in Germany, Owens Corning Corporation, which is based in the United States and Jiangsu CTC Technical Fabrics Co., Ltd. (江蘇天常複合材料股份有限公司) and Changzhou Hongfa Zongheng Advanced Material Technology Co., Ltd. (常州市宏發縱橫新材料科技股份有限公司), which are based in China. We compete with our competitors on a number of bases to obtain customer certification from the manufacturers of wind turbines and blades, as the case may be, according to the key purchasing criteria of these customers set forth in “Industry Overview — Customers — Customers’ Certification Process and Purchasing Criteria” in this prospectus.

Fiberglass fabrics used in other industries. Our products are also used in other sectors such as transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. We face intense competition in these industries on product prices and purchase terms, subject to market conditions in the various industries, primarily due to a more diversified customer base in these industries. For our E/PP composit fabric, which is primarily used in transportation, construction and sporting goods industries, the barriers to entry are relatively high, primarily because China Jushi has a dominant market position in respect of the supplies of fiber used in the manufacture of composit fabric and we have established a strong collaborative relationship with China Jushi.

PERMITS AND LICENSES

Our Directors, as advised by our PRC Legal Adviser, confirm that we do not need special permits, licences and certifications (apart from those pertaining to general business requirements) from the relevant PRC authorities for our operations in China. As at the Latest Practicable Date, we had obtained the licenses and permits necessary for starting up production in Egypt. These permits and licenses include (i) the approval of the Industrial Development Authority in Egypt, (ii) membership with the Egyptian Chamber of Textile Industries, and (iii) a temporary certificate from the Ministry of Trade and Industry in Egypt with its registration in the Industrial Register.

For more information about the laws and regulations that we are subject to in China and Egypt, see “Regulations” in this prospectus.

OCCUPATIONAL HEALTH AND SAFETY

The PRC government imposes a number of regulatory requirements on manufacturing companies with regard to employee safety. See “Regulations — Occupation Safety” in this prospectus for a discussion of these requirements. We regard occupational health and safety as one of our important social responsibilities, and we have implemented occupational health and safety measures at our production facilities to ensure compliance with applicable regulatory requirements, including establishment of an overall system and streamlined procedures for safe production, providing training and education for staff and workers in the area of safe production and instituting an internal responsibility system for the implementation of safe production measures. We conduct regular fire and machine safety checks at our production facilities and ensure that all employees have the necessary safety and protective gear to protect their health and safety. We believe that our safety practices can ensure employee safety.

As advised by our PRC Legal Adviser, during the Track Record Period, we had been in compliance with applicable work safety laws and regulations in all material aspects. During the Track Record Period, no administrative sanctions or penalties that had a material and adverse effect on our financial condition or business operations had been imposed upon us for the violation of safety laws or regulations. We had not been subject to any material claim or penalty in relation to occupational health and safety and had not been involved in any serious accident or fatality on our premises or at any of our production facilities during the Track Record Period.

Our Directors are of the view that the annual cost of compliance with applicable laws, regulations and policies was not material during the Track Record Period, and the cost of such compliance is not expected to be material going forward.

ENVIRONMENTAL MATTERS

Our operations and facilities are subject to environmental laws and regulations stipulated by the national, provincial and local environmental protection bureaus in China. The relevant laws and regulations applicable to fiberglass fabrics production in China include provisions governing noise pollution and the management, processing and disposal of hazardous substances and waste. Manufacturers are also required to conduct an environmental impact assessment before engaging in new construction projects to ensure that the production processes meet the required environmental standards to treat wastes before the wastes are discharged. For further information on the environmental laws, rules and regulations governing our operations, see “Regulations — Environmental Protection” in this prospectus.

We have obtained an ISO14001: 2004 system certification on our environmental management system of fiberglass fabrics production. In addition, we were recognised as the “Green Enterprise of Zhejiang Province (浙江省綠色企業)” in 2011 by the Zhejiang Province Economy and Information Commission (浙江省經濟和信息化委員會) and the Zhejiang Environmental Protection Bureau (浙江省環境保護廳) for our high standards in environmental protection measures.

Given the nature of our business, we generate solid waste and noise during our production process. We have implemented environmental protection measures during our production process to minimise impact on the environment and to prevent industrial pollution. During the Track Record Period, we were not subject to any penalty or claim by any governmental or regulatory authorities in the PRC for any material breach of or non-compliance with any environmental laws or regulations. We believe we have also maintained good relationships with the communities surrounding our manufacturing facilities. Our PRC Legal Adviser is of the view that we are in compliance with relevant national or local environmental laws and regulations in the PRC in all material aspects and have obtained all material permits, approvals and certifications required under PRC law in relation to our production facilities.

We have one staff responsible for environmental protection measures, who has experience in the manufacture of fiberglass fabrics products in China and is familiar with industry standards and applicable laws and regulations in relation to environmental protection.

For the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, our cost of compliance with applicable environmental laws, rules and regulations were RMB0.1 million, RMB0.1 million, RMB0.2 million and RMB0.4 million, respectively. These costs do not include historical capital expenditure on property, plant and equipment that may be attributable to environmental compliance. We do not have any specific expenditure plan with respect to environmental matters in the near future. However, we will devote operating and financial resources to such compliance whenever we are required by PRC laws and regulations to do so in the future.

In addition, as the PRC environmental regime continues to evolve and the supervision and enforcement authorities may adopt more stringent standards of environmental protection, we may be required to undertake additional expenditures in order to comply with environmental laws and regulations that may be adopted or imposed in the future.

INSURANCE

We maintain property insurance covering our production facilities and equipment, which we believe is sufficient in accordance with customary industry practice, as well as social welfare insurance in accordance with the relevant laws and regulations in China. We also maintain vehicle insurance coverage on vehicles we own as well as fixed asset insurance. We do not carry any product liability insurance or business interruption insurance, which are not mandatory under PRC law as confirmed by our PRC Legal Adviser. Our insurance policies include property all risks insurance, vehicle insurance and group life insurance. However, significant uninsured damage to any of our properties, inventory or other assets, whether as a result of fire or other causes, could have a material and adverse effect on our results of operations. For the risks associated with the coverage of our insurance policies, see “Risk Factors — Risks Relating to Our Group — We have limited insurance coverage in China” in this prospectus. In addition, to minimise our product liability risk, we have instituted quality control measures in order to avoid or reduce the incidence of product defects. See “— Quality Control” in this prospectus

for further details of our quality control system. Our Directors are of the view that our current insurance coverage is in line with industry practice and is adequate for our operations. As at the Latest Practicable Date, we have not made or been the subject of any insurance claims which are material to us.

INTERNAL CONTROLS AND RISK MANAGEMENT

It is the responsibility of our Board of Directors to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our Group's assets at all times. We have adopted or expect to adopt immediately after the Listing a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

Code of conduct. Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour. We have established a reporting procedure for non-compliance incidents and included the observation of our internal control policies in our overall performance assessment system to incentivise the implementation of our internal control policies.

Anti-corruption. Our anti-corruption policies provide the tools and resources necessary to enable, monitor and enforce full compliance with the relevant anti-bribery and anti-corruption regulations applicable to us. Compliance with our anti-corruption policies is a condition of employment. We also implement policies concerning conflicts of interest and interactions and communications with suppliers, customers and other third parties in our business operations, as well as guidelines with respect to entertainment, gift-giving, or similar exercise with any official or any person involved in business operations.

Egyptian Sanctions Regime. We will evaluate EU sanctions risks prior to determining whether we should embark on any new business opportunities in Egypt. According to our internal control procedures, before we enter into a contract with an Egyptian person or entity, a designated employee in our Egyptian subsidiary will review the information (such as identity and nature of business) relating to the counterparty. Such designated employee will check the counterparty against the EU's Egyptian sanctions list. If any potential sanctions risk is identified, we will seek advice from our EU sanctions counsel before entering into such contract. If our legal adviser as to EU sanctions laws is of the view that the proposed business will expose the Company, the Shareholders as a whole, the Stock Exchange, HKSCC or HKSCC Nominees to any EU sanctions risks, our Board of Directors will veto the proposed business and we will not embark on such business opportunity. Upon the full implementation of these measures, our Directors and the Sole Sponsor believe these measures will be sufficient to protect the interests of our Company, the Shareholders as a whole, the Stock Exchange, the HKSCC and the HKSCC Nominees.

Internal audit. Our internal audit team regularly monitors key controls and procedures in order to assure our management and our Board of Directors that the internal control system is functioning as intended. The Audit Committee of our Board of Directors is responsible for supervising our internal audit function.

Compliance with Listing Rules. Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by our Directors.

Enhanced internal control procedures to prevent the recurrence of non-compliance incidents. We also adopted a number of enhanced internal control procedures to prevent the recurrence of non-compliance incidents relating to bill activities, inter-company loans and environmental issues. For details, see "— Regulatory Compliance and Legal Proceedings."

We have established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations. Our risk management process starts with identifying the major risks associated with our corporate strategy, goals and objectives. Each of our operating departments is responsible for identifying and analysing risks associated with its function, maintaining a comprehensive risk register, preparing risk mitigation

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plans, measuring effectiveness of such risk mitigation plans and reporting the status of risk management. Our audit personnel, the Audit Committee of our Board of Directors, and ultimately our Board of Directors supervise the implementation of our risk management policy at the corporate level by bringing together each operating department, such as quality control, research and development and sales, to collaborate on risk issues among different functions. For details about the qualifications and experiences of the members of the Audit Committee in our Board of Directors and our Board of Directors, see “Directors and Senior Management” in this prospectus.

Our Directors are of the view that our current internal control measures are adequate and effective.

PROPERTIES

We summarise below the information regarding properties material to our operations and businesses. Details of our properties are set out in “Appendix III — Property Valuation” to this prospectus.

Head Office

Our headquarters is at No. 1 Guang Yun South Road, Tongxiang Economic Development Zone, Tongxiang, Zhejiang province, China.

Owned Properties

As confirmed by our PRC Legal Adviser, as at the Latest Practicable Date, we legally owned the following properties located in Tongxiang, Zhejiang province: (i) land use rights with a total site area of approximately 128,567 square metres; and (ii) seven buildings with a total gross floor area of approximately 127,692 square metres. These properties are held in connection with our business operations for manufacturing, warehouse and administrative purposes.

Leased Properties

As at the Latest Practicable Date, we, as a lessor, leased a dormitory building of a total gross floor area of 3,495 square metres to Zhenshi Group Zhejiang Yushi International Logistics Company Limited (振石集團浙江宇石國際物流有限公司), a connected person for the purpose of the Listing Rules. For details, see “Connected Transactions — Exempt Continuing Connected Transactions — De minimus — Lease to Yushi International”

As at the Latest Practicable Date, we, as a lessee, leased an apartment in Tongxiang, Zhejiang province with a floor area of approximately 110 square metres, which was provided to certain senior management member for residential purposes.

As at the Latest Practicable Date, we have not completed the administrative filings for registration with respect to the aforementioned lease agreements. Our PRC Legal Adviser is of the view that the non-registration will not affect the validity of the relevant lease agreements. Our Directors believe that the non-registration of the relevant lease agreements will not have a material adverse effect on our business, financial condition and results of operation.

In addition, we leased a property in Suez, Egypt with a gross floor area of 4,076 square metres for our production facilities in Egypt.

Property to be acquired

On 4 December 2015, we entered into a property sale and purchase agreement with Zhenshi, pursuant to which Zhenshi agreed to sell and we agreed to purchase three floors of office space (the “Property”) in a building which is under construction at Gexin Area, Zhendong New District, Tongxiang, Zhejiang Province, the PRC (中國浙江省桐鄉市振東新區革新區塊) for a total consideration of approximately RMB75.9 million. For further details about the acquisition of the Property, see “Connected Transactions — Non-recurrent Connected Transactions — Acquisition of a property.” Our Directors confirm that our interest in the Property has a carrying

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amount (as defined in the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong) (the “Exemption Notice”)) of less than 15% of our Group’s total assets as of 30 June 2015.

Pursuant to section 6(2) of the Exemption Notice, save and except for the disclosure as set out in the Valuation Report at Appendix III to this prospectus, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report to be prepared in respect of all our interests in land or buildings.

An overview in respect of our interests in properties not covered in the Valuation Report at Appendix III to this prospectus is set out below.

Location	Total gross floor area	Nature	Use	Nature of interest
1. Three floors of office space in a building which is under construction at Gexin Area, Zhendong New District, Tongxiang, Zhejiang Province, the PRC (中國浙江省桐鄉市振東新區革新區塊)	3299.625 square metres	Commercial	The Property will be used by our Group as our office.	Sale and purchase agreement in respect of the Property was entered into between the Company and Zhenshi on 4 December 2015.
2. An apartment in Tongxiang, Zhejiang Province, the PRC	Approximately 110 square metres	Residential	Provided to certain senior management member for residential purposes	Leased property
3. A property in Suez, Egypt	4,076 square metres	Industrial	Production facilities	Leased property

EMPLOYEES

As at 30 June 2015, we had 1,184 full-time employees. The table below sets forth the breakdown of employees by function:

Department	Number of employees
Production.	1,031
Management.	48
Quality control.	17
Sales and marketing.	20
Research and development.	26
Finance.	7
Others.	18
Total.	<u>1,167</u>

We recruit our employees from Chinese universities, vocational schools and the public. As at 30 June 2015, over 25% of our full-time employees had college or junior college degrees or above.

The remuneration package of our employees includes salary, bonus and other cash subsidies. In general, we determine employee salaries based on each employee’s qualifications, performance and seniority. We have designed an annual review system to assess the performance of our employees, which forms the basis of our

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determination on salary raises, bonus and promotion. We are subject to social insurance contribution plans organised by the PRC local governments. In accordance with the relevant national and local labour and social welfare laws and regulations, we are required to pay, on behalf of our employees, a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing fund. We believe the salaries and benefits that we pay our employees are competitive in comparison with market rates.

Our employees do not negotiate their terms of employment through any labour union or by way of collective bargaining agreements. We maintain harmonious relationship with our employees. As at the Latest Practicable Date, no significant labour disputes which adversely affected or were likely to have an adverse effect on the operations of our business occurred. Our Directors believe that our human resources have been increasing both in terms of quantity and quality, and we did not experience a high rate of turnover or attrition during the Track Record Period.

We maintain a written policy that establishes stringent guidelines and principles governing employee retention and termination. When we terminate any employee, the terminate process is strictly in accordance with our internal employment policy, our obligations under the relevant employment contracts and PRC law. Our Directors and our PRC Legal Adviser confirm that we have complied with applicable employment laws and regulations in all material respects, and there was no labour related legal proceeding against us as at the Latest Practicable Date.

We have enrolled in work injury, medical and maternity insurance programmes and have also been contributing to the housing fund of employees. We will continue to pay relevant insurance premiums and housing fund in accordance with applicable rules and regulations in China.

Under PRC law, employees of companies in China are members of the state-administered pension scheme, and companies are required to contribute a certain percentage of their payroll to the pension scheme. Contributions made for the benefit of former employees who have not fully vested prior to their retirement may not be used to offset its ongoing obligations to contribute to the pension scheme for its current employees.

OUR BUSINESS ACTIVITIES IN EGYPT

In March 2011, the EU introduced asset freezing measures against assets owned or controlled by persons, entities and bodies designated as being responsible for the misappropriation of Egyptian state funds or corruption (the “Egyptian Sanctions Regime”).

Our Egyptian Facilities and our risk exposure to the Egyptian Sanctions Regime

We have completed our Egypt Phase I Expansion Plan to construct production facilities in Suez, Egypt, and intend to further expand our production capacity in Egypt in 2016. The Phase I construction of our Egypt facilities completed in June 2015. We have produced limited amount of products from our Egypt facilities for the purpose of obtaining customer certification for our products. We currently expect to receive all customer certifications for the products manufactured at our Egypt facilities by the end of February 2016 and we expect to commence the commercial operation of our Egypt facilities by the end of March 2016. We do not intend to fund the expansion of our Egyptian facilities with the proceeds from the Global Offering. We have set up a subsidiary in Egypt in December 2014 in connection with our expansion plans in Egypt. Upon the completion of our expansion plans in Egypt in 2016, our annual designed production capacity in Egypt is estimated to be 20,472 tonnes and we plan to supply products manufactured in Egypt to our customers in Europe, the Middle East and Africa. As at the Latest Practicable Date, none of our customers is on the sanctions list of the Egyptian Sanctions Regime. For details, see “— Production — Future Expansion Plans — Production Capacity Expansion in Egypt.”

In relation to our business activities in Egypt during the Track Record Period, we have not been notified that any sanctions will be imposed on us. None of the contracting parties are specifically identified by the Egyptian Sanctions Regime as sanction target. Further, our Egyptian subsidiary is not an EU-incorporated entity or managed by EU nationals and our clients in Europe who we intend to serve by our Egyptian facilities are typically internationally-known wind industry business.

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Based on the aforesaid facts, as advised by our legal adviser as to EU sanctions law, the risk of our business activities having violated, or currently being in violation of, the Egyptian Sanctions Regime and the risk that our Group, or any person or entity, including our Group's investors, our Shareholders, the Stock Exchange, HKSCC and HKSCC Nominees will be subject to the Egyptian Sanctions Regime are low.

We have implemented internal control procedures to protect our Group and our Shareholders from the risk of violating Egyptian Sanctions Regime, see “—Internal Controls and Risk Management” for details.

Our undertakings

We have undertaken to the Stock Exchange that we will not use the proceeds from the Global Offering, as well as any other funds raised through the Stock Exchange, to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, any Egyptian individual or entity sanctioned by the Egyptian Sanctions Regime. In addition, we have no present intention to undertake any future business that would cause us, the Stock Exchange, HKSCC, HKSCC Nominees or our Shareholders to violate or become a target of the Egyptian Sanctions Regime. We will also disclose on the respective websites of the Stock Exchange and our Group if we believe that the transactions our Group entered into in Egypt or with Egyptian individuals or entities sanctioned by the Egyptian Sanctions Regime would put our Group or our Shareholders and investors at risk of being sanctioned by the competent authority of an EU member state, and in our annual reports or interim reports our efforts on monitoring our business exposure to sanctions risk, the status of future business in Egypt and with Egyptian individuals or entities sanctioned by the competent authority of an EU member state and our business intention relating to Egypt and with Egyptian individuals or entities sanctioned by the competent authority of an EU member state. If we were in breach of such undertakings to the Stock Exchange, it is possible that the Stock Exchange may delist our Shares.

REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

During the Track Record Period, we initiated legal proceedings to recover overdue payments from two of our PRC customers with aggregate default payments of RMB17.7 million, of which we obtained favourable court judgments. Both customers are engaged in the wind turbine blade sector and the overdue payments were primarily caused by their own financial difficulties. We expect that substantially all the amounts outstanding will be repaid to us by June 2016.

On 15 May 2015, China Jushi and we jointly initiated legal proceedings in Spain against an overseas fiberglass manufacturer to seek an order that (i) the defendant's patent on one particular type of fiberglass is invalid in Spain, and (ii) even if such patent is valid, a particular type of fiberglass manufactured by China Jushi does not infringe such patent of the defendant. We participated in such legal proceedings because we sourced this particular type of fiberglass from China Jushi to manufacture one series of our uni-directional fabrics, which were sold in the Spanish market and used in large-capacity wind turbines. China Jushi commenced sales of such fiberglass in 2014, and revenue generated from our products made of the relevant fiberglass accounted for less than 5% of our revenue in the same year. As at the date of this prospectus, we were not aware of any litigation initiated by the defendant against China Jushi or us.

China Jushi entered into a letter of undertaking in favour of us on 22 May 2015. Pursuant to such letter, China Jushi confirms that the fiberglass in dispute supplied by China Jushi to us does not infringe the patents of third parties, and agrees to irrevocably indemnify us and our subsidiaries against all the direct and indirect losses arising from the patent disputes with the defendant, including litigation fees, expenses and other costs that may arise from any claim. For the risks associated with such legal proceedings, see “Risk Factors—Risks Relating to Our Group—The legal proceedings jointly initiated by China Jushi and us against an overseas fiberglass manufacturer in Spain are subject to uncertainties.”

During the Track Record Period, we were not subject to any material litigation as a defendant. Save as disclosed above in this section, as at the Latest Practicable Date, no member of our Group or any of our Directors was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against our Group or any of our Directors, that would have a material adverse effect on our business, results of operations or financial

condition. We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

Save as disclosed in this section, our Company, as advised by our PRC Legal Adviser, confirms that as at the Latest Practicable Date, our Group have complied with all relevant PRC laws and regulations in all material respects and had obtained all necessary material licenses, approvals and permits from the relevant regulatory authorities for our operations in China.

Non-compliant Bill Arrangements

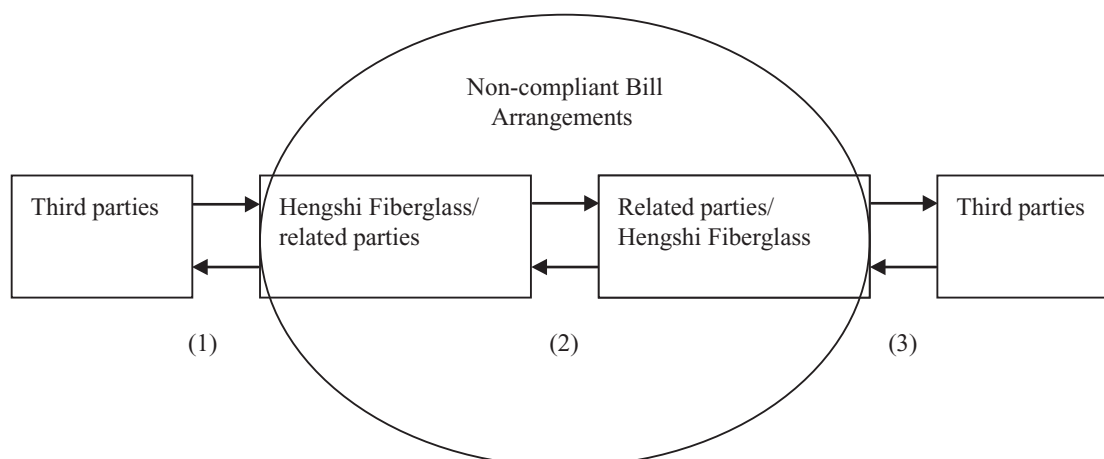
Background

From 1 January 2012 to 31 October 2014, Hengshi Fiberglass, our PRC subsidiary, entered into arrangements with certain related parties controlled by Zhenshi, which were supported in each case by bona fide underlying transactions in relation to third parties, involved the transfer of bank accepted bills without underlying transactions within companies controlled by Zhenshi (the “Non-compliant Bill Arrangements”). According to the PRC Legal Adviser to the Company, due to the fact that the intra group transfers of the bank accepted bills within the Zhenshi Group were not conducted on the basis of any underlying transaction, such arrangements were not in compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法). However, the issue of bank accepted bills initially concerning third parties and the use of such bills by Hengshi Fiberglass with third parties were supported in each case by bona fide underlying transactions.

The Non-compliant Bill Arrangements were effectively a financial management practice of Zhenshi Group whereby bank accepted bills, which originated from bona fide underlying transactions with third parties and were issued to a member of the Zhenshi Group (of which the Company formed part prior to the Reorganisation), were subsequently transferred between members of the Zhenshi Group for the settlement of other bona fide transactions with third parties. Under the Non-compliant Bill Arrangements, bank accepted bills owned by Hengshi Fiberglass and certain related parties controlled by Zhenshi were managed in a centralised system by Zhenshi in order to allocate funds in a more efficient way. Under such centralised system, a party that needed to make payment to a third party purchased bank accepted bills from its related party to the extent available such that (i) the obligations to the third party were satisfied by bank accepted bills rather than by cash, and (ii) the cash flowed to the selling party of the bank accepted bills prior to the maturity dates of the relevant bank accepted bills. The flow of bank accepted bills from the third parties to Hengshi Fiberglass or its related parties was supported in each case by bona fide underlying transactions. All the transfers of bank accepted bills between Hengshi Fiberglass and its related parties under the Non-compliant Bill Arrangements were at the bank accepted bills’ face value and settled by a combination of cash and bank accepted bills equivalent to such face value, as the case may be. Assuming that there were no such arrangements and the selling party of bank accepted bills would like to receive the same amount of cash at a given point in time, it would need to pay discount charges to the banks issuing the bank accepted bills to receive the face value of the bank accepted bills if the bank accepted bills were not mature yet. Assuming that there were no such arrangements, the purchasing party of bank accepted bills would have more cash and less bank accepted bills at a given point in time. As such, the Non-compliant Bill Arrangements resulted in lower finance costs for the selling party of the bank accepted bills and less liquidity for the purchasing party of bank accepted bills.

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The diagram below illustrates the specific mechanism of the Non-compliant Bill Arrangements:



Notes:

- (1) Hengshi Fiberglass or its related parties controlled by Zhenshi received bank accepted bills from third parties during its normal course of business. The flow of bank accepted bills from the third parties to Hengshi Fiberglass or its related parties was supported by bona fide underlying transactions.
- (2) Hengshi Fiberglass and its related parties controlled by Zhenshi transferred their respective bank accepted bills according to the actual need for making payments to third parties. If Hengshi Fiberglass had a bill and a certain related party needed to make payment to a third party, that related party would purchase the bill from Hengshi Fiberglass at its face value by a combination of cash and bank accepted bills, as the case may be, and vice versa. The flow of bank accepted bills between Hengshi Fiberglass and its related parties was not supported by bona fide underlying transactions.
- (3) Hengshi Fiberglass or its related parties controlled by Zhenshi made payments to third parties with the bank accepted bills obtained under the Non-compliant Bill Arrangements. The flow of bank accepted bills from Hengshi Fiberglass or its related parties to the third parties was supported by bona fide underlying transactions.

The table below sets forth, for the periods indicated, a breakdown of the number of non-compliant transactions and amount of bank accepted bills purchased and sold by Hengshi Fiberglass under the Non-compliant Bill Arrangements.

	Year ended 31 December					
	2012		2013		2014	
	Purchase of bills by Hengshi Fiberglass	Sale of bills by Hengshi Fiberglass	Purchase of bills by Hengshi Fiberglass	Sale of bills by Hengshi Fiberglass	Purchase of bills by Hengshi Fiberglass	Sale of bills by Hengshi Fiberglass
Number of non-compliant transactions	11	14	9	27	15	49
Aggregate amount (RMB million)	(14.0)	19.5	(3.4)	14.9	(4.3)	18.1

The total transaction amounts of bank accepted bills purchased and sold by Hengshi Fiberglass under the Non-compliant Bill Arrangements were RMB33.5 million, RMB18.3 million and RMB22.4 million for the years ended 31 December 2012 and 2013 and the ten months ended 31 December 2014, respectively. The net aggregate amount of bank accepted bills purchased and sold by Hengshi Fiberglass under the Non-compliant Bill Arrangement was RMB5.5 million, RMB11.6 million and RMB13.8 million in 2012 and 2013 and for the ten months ended 31 December 2014, respectively. Hengshi Fiberglass ceased such practice in October 2014.

The Non-compliant Bill Arrangements were due to a lack of detailed knowledge of the restrictions on bill transfers under the relevant PRC laws and regulations. The intent of the Non-compliant Bill Arrangements was to use bank accepted bills more efficiently among Hengshi Fiberglass and its related parties controlled by Zhenshi. The Non-compliant Bill Arrangements enabled Zhenshi Group to allocate and utilise funds within its group and amongst its members, including Hengshi Fiberglass prior to the Reorganisation, in a more efficient way. The Non-compliant Bill Arrangements resulted in lower finance costs for the Zhenshi Group as otherwise the relevant member of the Zhenshi Group which initially received the bank accepted bill would have to cash in the bill at a

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discounted amount to the face value of the bill prior to its maturity. The flow of bank accepted bills from the third parties to Hengshi Fiberglass or its related parties was supported in each case by bona fide underlying transactions. Our Directors only became aware of such non-compliance in the course of preparing for the Listing, upon which they promptly procured Hengshi Fiberglass to cease to enter into any further Non-compliant Bill Arrangement since 31 October 2014, and all outstanding balances of the Non-compliant Bill Arrangements were fully settled by March 2015. None of our Directors or senior management obtained any personal benefit directly or indirectly from the Non-compliant Bill Arrangements and no third parties were adversely effected. As at the Latest Practicable Date, we had not received any notice of investigation, inquiry or penalty from government authorities with respect to the Non-compliant Bill Arrangement.

Effect on Our Financial Position

Assuming Hengshi Fiberglass did not enter into the Non-compliant Bill Arrangements and had instead received the same amount of cash for any particular transaction, it would need to pay discount charges to the banks issuing the bank accepted bills to receive the face value of the bank accepted bills to the extent that the bank accepted bills were not yet mature. The bank accepted bills purchased and sold by Hengshi Fiberglass had terms ranging from one month to six months. As such, for illustrative purposes and based on the then average discount charge applied to the full six-month term of the relevant bank accepted bills, we estimate the maximum discount charges saved under the Non-compliant Bill Arrangements were as follows:

	Year ended 31 December		
	2012	2013	2014
	(in RMB millions, except percentages)		
Net aggregate amount of bills sold/(purchased) by Hengshi Fiberglass under the Non-compliant Bill Arrangements	5.5	11.6	13.8
Applicable discount charge rate for six months	2.6%	2.5%	3.0%
Maximum discount charge saved by Hengshi Fiberglass under Non-compliant Bill Arrangements	0.1	0.3	0.4

The maximum discount charge saved by Hengshi Fiberglass under the Non-compliant Bill Arrangements in 2012 and 2013 and for the ten months ended 31 October 2014 represented 0.5%, 0.9% and 1.6% of our total finance costs during the same periods, respectively. As such, our Directors are of the view that the effects of the Non-compliant Bill Arrangements on our financial position during the Track Record Period were not material and we did not rely on such arrangements to support our working capital in any material way. In addition, our Directors believe that we would have had sufficient working capital for our operation had we not entered into the Non-compliant Bill Arrangement during the Track Record Period for the following reasons:

- (i) we had total bank borrowings of RMB441.5 million, RMB511.8 million, RMB420.3 million and RMB436.1 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively;
- (ii) As at 30 June 2015, we had bank loan facilities of RMB633.0 million, of which RMB227.0 million remained unutilised; and
- (iii) we had total cash and cash equivalents of RMB124.5 million, RMB33.4 million, RMB61.7 million and RMB69.8 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively.

Since the full settlement of all outstanding bank accepted bills in relation to the Non-compliant Bill Arrangements, we have continued to demonstrate that we have sufficient working capital to support our business operations based on our operating income, credit facilities and established relationships with PRC commercial banks and our ability to raise capital. We had a net increase in cash and cash equivalents of RMB28.3 million from 31 December 2013 to 31 December 2014, and we had net increase in cash and cash equivalents of RMB5.1 million from 31 December 2014 to 30 June 2015. In addition, our Directors have also confirmed that, after taking into account the net proceeds available to us from the Global Offering, our cash and future operating cash flows and our bank borrowings, we will have sufficient working capital for at least the next 12 months following the date of this prospectus. See “Financial Information — Liquidity and Capital Resources” for further details.

Confirmation from Relevant Government Authorities

In connection with the Non-compliant Bill Arrangements entered into by Hengshi Fiberglass, on 17 April 2015, we and our PRC Legal Adviser conducted an interview with the Jiaxing Bureau of the CBRC (中國銀監會嘉興監管分局), which confirmed that it does not have the authority to impose penalties on local enterprises and has not imposed penalties on local enterprises due to non-compliant bill arrangements. On the same date, we and our PRC Legal Adviser also conducted an interview with the PBOC Jiaxing Central Sub-branch (中國人民銀行嘉興市中心支行), which confirmed that it has not imposed penalties and will not initiate investigation or impose penalties on local enterprises under the similar situations.

According to our PRC Legal Adviser, the PBOC Jiaxing Central Sub-branch is the appropriate regulatory authority with competent jurisdiction over Hengshi Fiberglass in relation to the bill endorsement and transfer activities under the Non-compliant Bill Arrangements.

Opinion of our PRC Legal Adviser

Our PRC Legal Adviser has advised us that the Non-compliant Bill Arrangements were not in compliance with the Negotiable Instruments Law of the PRC (中華人民共和國票據法) (Article 10 which states that bank accepted bills must be issued on the basis of actual underlying transactions) and certain banking regulations promulgated by the PBOC, including the Measures for the Implementation of the Administration of Negotiable Instruments (票據管理實施辦法), the Measures for the Payment and Settlement and the Notice of the People's Bank of China on Certain Improvements of the Negotiable Instruments Systems (中國人民銀行關於完善票據業務制度有關問題的通知).

Further, according to our PRC Legal Adviser, there are no specific provisions in the Negotiable Instruments Law of the PRC or any other relevant laws or regulations that impose any administrative or criminal liability for non-compliant bill-related transactions (such as the Non-compliant Bill Arrangements). As such, there is no legal basis for any PRC regulatory authority to impose administrative or criminal liability on us, our Directors or senior management in relation to the Non-compliant Bill Arrangements, and to date no such liability has been so imposed.

Such opinions are also based on:

- (i) the principle described in Article 3 of the PRC Criminal Law (中華人民共和國刑法) that a criminal act not expressly defined by law shall not be convicted and sentenced;
- (ii) the principle described in Article 4 of the Administrative Penalty Law of the PRC (中華人民共和國行政處罰法) that rules governing the offences which are subject to administrative penalty must be promulgated and rules not promulgated shall not become the basis for administrative penalty;
- (iii) the principle described in Article 112 of the General Principles of the Civil Law of the PRC (中華人民共和國民法通則) that the party that breaches a contract shall be liable for damages equal to the losses suffered by the other party; and
- (iv) as described above, the views of each of the relevant government authorities (namely, the PBOC Jiaxing Central Sub-branch and the Jiaxing Bureau of the CBRC).

Furthermore, the full amounts of the bank accepted bills in respect of the Non-compliant Bill Arrangements were settled by March 2015, and there is no dispute or civil claim between Hengshi Fiberglass and its related parties or any other third parties in connection with the Non-compliant Bill Arrangements.

Based on the above, our PRC Legal Adviser is further of the opinion that:

- (i) based on the interviews with the PBOC Jiaxing Central Sub-branch and the Jiaxing Bureau of the CBRC, the Non-compliant Bill Arrangements did not constitute any fraudulent activity (including fraud as defined under Articles 102 and 103 of the Negotiable Instruments Law of the PRC (中華人民共和國票據法) and Article 194 of the Criminal Law of the PRC (中華人民共和國刑法)) and

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our Group will not have any legal liability under any civil claim arising from the Non-compliant Bill Arrangements; and

- (ii) our Controlling Shareholders, Directors and senior management will not be personally liable for any legal liabilities.

Enhanced Internal Control Procedures

We have ceased entering into any new non-compliant bill transactions since 31 October 2014. Since 8 January 2015, we have engaged an independent consulting firm as our internal control consultant to review the design and implementation of the remediated controls in relation to the transfer of bank accepted bills. Since the cessation of the Non-compliant Bill Arrangements, we have undertaken a series of measures out of our own initiatives or as recommended by our internal control consultant to ensure non-compliant bill arrangements will not occur in the future. The key measures implemented include:

- establishing an audit committee comprising two independent non-executive Directors to review and supervise our internal control systems;
- designing and implementing internal guidelines and policies for approving, reporting and monitoring bill-related transactions;
- announced internally to all employees a clear policy statement that non-compliant bill arrangements are forbidden;
- notified senior management members in charge of bill arrangements that bill transfers without underlying transactions should not be approved;
- proposed disciplinary actions for any breach of the new policy;
- provided preliminary training to employees and senior management involved in bill-related activities about the new policy and to emphasise that bill transfers without support of underlying transactions are not in compliance with relevant PRC laws and regulations and are strictly forbidden; and
- considering and planning to develop more measures to review, advise, implement and help formalise and document internal control measures for bill-related activities and our overall internal control systems.

Set out below are further specific key measures we have implemented to ensure that non-compliant bill arrangements will not occur in the future:

(1) *Clear policy statement to prohibit non-compliant bill arrangements*

We have notified all of our employees and management involved in bill-related activities that bill transfers without underlying transactions are not in compliance with relevant PRC laws and regulations and are strictly forbidden and that no senior management in charge of bill arrangements may approve any bill transfers without underlying transactions. We have designated Mr. Wang Yuan, our non-executive Director, to oversee our financial reporting and internal control procedures after the Listing.

(2) *Approval subject to cross-checking and verification of underlying trades*

We have amended our approval procedures for bill arrangements. Our Directors, senior management members and the relevant management personnel are required to review, cross-check and verify the genuineness of the underlying transactions before approving any bill-related transaction. For bill-related transactions with an amount below RMB5.0 million, the manager of finance department of Hengshi Fiberglass is required to submit application and relevant documents to the deputy general manager of Hengshi Fiberglass for review, cross-checking and verification, and approval from the general manager of Hengshi Fiberglass must be obtained before such bill arrangement can be carried out. For bill-related transactions with an amount above RMB5.0 million but

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below RMB10.0 million, approval from our Group's finance officer is required after review, cross-checking and verification. For bill-related transactions with an amount above RMB10.0 million, review, cross check and verification of the underlying transactions and approval from our Group's chief financial officer and chief executive officer or general manager is required.

(3) *Disciplinary actions for non-compliance*

We have implemented a policy that subjects employees and management who do not comply with the above measures regarding non-compliant bill-related activities to various disciplinary actions, including financial and legal responsibilities.

(4) *Training*

In addition to attending various internal training sessions, our Directors and senior management obtained advice from our PRC Legal Adviser and Hong Kong legal adviser regarding the relevant PRC regulations on bill arrangements and the obligations of our Company and our Directors under the Listing Rules. We will continue to conduct regular internal training for our employees and management on our compliance policy and engage external professionals, including our Hong Kong legal adviser and PRC Legal Adviser, to conduct training on our ongoing compliance and obligations under the Listing Rules and all other relevant Hong Kong and PRC regulations to ensure awareness and compliance with our policies.

(5) *Regular internal review and reporting process*

We have assigned our internal audit department to review and monitor our bill-related activities on a quarterly basis, conduct random checking and report its findings to our audit committee. Our internal audit department has a team of two members, both of whom hold bachelor's degrees and one of them has more than five years of experience in accounting.

Our Directors believe that the above measures will help us to prevent non-compliant bill-related transactions in the future.

Internal control review

The internal control consultant reviewed the design and implementation of the enhanced internal control measures surrounding the bill transfers at Hengshi Fiberglass for the period from 8 January 2015 to 27 February 2015 and has reported to the Company that it has not raised any further deficiencies regarding the control measures relating to the bill transfers at Hengshi Fiberglass. The internal control review was conducted based on information provided by the Company and no assurance or opinion on internal controls was expressed by our internal control consultant.

Non-compliant Inter-company Loans

Background

During the Track Record Period, Hengshi Fiberglass provided loans to certain related parties controlled by Zhenshi. As a result, the Company was involved in money lending which did not comply with the requirements of PBOC (the "Non-compliant Inter-company Loans").

As advised by our PRC Legal Adviser, according to the Lending General Provisions (貸款通則), lenders must be approved by PBOC to engage in lending business and they must hold financial institution legal person licences (金融機構法人許可證) or financial institution business licences (金融機構營業許可證) issued by PBOC. In addition, they should be approved and registered by the local Administration of Industry and Commerce (工商行政管理局). The Lending General Provisions also stipulate that, if enterprises engage in lending and borrowing or lending and borrowing in a disguised form between themselves without authorisation, PBOC may impose a fine on the lender ranging from one to five times of the interest income gained in violation of provisions

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and PBOC shall suppress the activities. Accordingly, Hengshi Fiberglass was in breach of the Lending General Provisions for the Non-compliant Inter-company Loans and may be liable for a fine imposed by PBOC.

Our Company confirms that: (1) the reason of these transactions was not to earn profit but to allocate fund to facilitate the development of those related parties controlled by Zhenshi in view of their actual needs; and (2) such non-compliance was mainly due to a lack of detailed understanding of the senior management on the restrictions on inter-company loans under the relevant PRC laws and regulations.

Effect on financial position

As at 31 December 2012, 2013 and 2014 and 30 June 2015, the balance of our Non-compliant Inter-company Loans to shareholders and related parties was RMB167.8 million, RMB441.2 million, RMB200.0 million and RMB0.5 million, respectively. We received aggregate interest payments of RMB11.4 million, RMB23.3 million, RMB16.6 million, RMB9.8 million and RMB2.9 million arising from the Non-compliant Inter-company Loans in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively. Our profit before tax was RMB77.5 million, RMB83.5 million, RMB147.5 million, RMB39.0 million and RMB142.8 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 17.6%, 20.6%, 21.7%, 13.3% and 28.5% of our revenue during the same periods, respectively. Excluding the impact of the interest payments arising from the Non-compliant Inter-company Loans, our adjusted profit before tax would have been RMB66.0 million, RMB60.2 million, RMB130.9 million, RMB29.1 million and RMB139.9 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, representing 15.0%, 14.8%, 19.3%, 10.0% and 28.0% of our revenue during the same periods, respectively. Our Company confirms that all Non-compliant Inter-company Loans had been settled as at the Latest Practicable Date.

Confirmations from relevant government authorities and the Directors

In connection with the Non-compliant Inter-company Loans, on 17 April 2015, we and our PRC Legal Adviser conducted an interview with the PBOC Jiaying Central Sub-branch (中國人民銀行嘉興市中心支行), which confirmed that it has not imposed penalties on local enterprises due to non-compliant inter-company loans since 2004.

According to the Lending General Provisions, PBOC is the government authority responsible for monitoring lending and borrowing money in PRC. Our PRC Legal Adviser has confirmed that the PBOC Jiaying Central Sub-branch (中國人民銀行嘉興市中心支行) is the appropriate government authority to consult the Non-compliant Inter-company Loans and it is a competent local government authority to determine whether there is any breach of PRC laws and regulations, or impose any liability, in relation to the Non-compliant Inter-company Loans.

In connection with the Non-compliant Inter-company Loans, on 17 April 2015, we and our PRC Legal Adviser also conducted an interview with the Jiaying Bureau of the CBRC (中國銀監會嘉興監管分局), which confirmed that it does not have the authority to impose penalties on enterprises and has not imposed penalties on enterprises due to non-compliant inter-company loans.

Our Company confirms that no financial disputes have occurred between Hengshi Fiberglass and its related parties up to the Latest Practicable Date and all Non-compliant Inter-company Loans have been settled.

Opinions from our PRC Legal Adviser

According to our PRC Legal Adviser, the lending activities between Hengshi Fiberglass and its related parties were not to earn profit but to allocate fund to facilitate the development of the related parties. Our PRC Legal Adviser is of the view that the possibility for any PRC regulatory authority to impose penalties on our Group in relation to the Non-compliant Inter-company Loans is remote.

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Based on the above, the Directors are of the view that the Non-compliant Inter-company Loans will not have material adverse effects on the financial position, production and operations of our Group.

Enhanced Internal Control Procedures

We have adopted internal guidelines and policies to avoid the recurrence of non-compliant inter-company loans. We have provided trainings to our senior management and employees in the finance department about the new policy and emphasised that inter-company loans are not in compliance with the relevant PRC laws and regulations. We will continue to conduct regular internal training for our employees and management on our compliance policies. We have also assigned our internal audit department to review and monitor our loan activities on a regular basis, conduct random checking and report its findings to our audit committee.

Social Security Insurance and Housing Fund Contributions

According to PRC laws and regulations, we are required to pay social security insurance and housing fund contributions for all employees to designated government agencies. During the Track Record Period, we did not make housing fund contributions for certain employees, and we made social security insurance and housing fund contributions based on standards that were lower than the actual wages of our employees as required by the relevant PRC laws, due to our understanding of the predominant local practice. Some of our employees have not been willing to make in full their own social security insurance and housing fund contributions, for which we would be required to make matching contributions, because they believe that the contributions paid in Tongxiang may not be transferable to their home cities and they prefer retaining the relevant part of their salaries in cash over contributing the sum to the social security funds or housing funds. We estimate that during the Track Record Period, the aggregate shortfall amount was between RMB3.5 million and RMB4.0 million. According to applicable PRC laws, the social security insurance authorities are entitled to order the employer to pay the outstanding social security insurance and impose a late charge of 0.05% and a fine ranging from one to three times of the outstanding social security insurance. The housing fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing fund authority may seek an order for payment from the relevant PRC court.

As at the Latest Practicable Date, we had not received any notice, penalty-related or otherwise, from the relevant governmental authorities with respect to the payments of social security insurance and housing fund contributions. According to a confirmation letter issued by the Tongxiang Bureau of Social Security Insurance of Zhejiang province (浙江省桐鄉市社會保險事業局) on 8 September 2015 and a confirmation letter issued by the Tongxiang Branch of the Housing Fund Contribution Management Centre of Jiaxing, Zhejiang province (浙江省嘉興市住房公積金管理中心桐鄉分中心) on 8 September 2015, we will not be required to pay the shortfall amount, nor will we be subject to any penalties or liabilities in respect of our historical practice relating to social security insurance and housing fund contributions. These confirmations also confirmed that the relevant competent authorities did not impose penalties on us during the Track Record Period and up to the date of the relevant confirmations.

Our PRC Legal Adviser is of the view that Tongxiang Human Resources and Social Security Bureau (桐鄉市人力資源和社會保障局) (including its direct subordinate Tongxiang Bureau of Social Security Insurance (桐鄉市社會保險事業局)) and the Tongxiang Branch of the Housing Fund Contribution Management Centre of Jiaxing (嘉興市住房公積金中心桐鄉分中心) are the respective competent authorities responsible for managing social security insurance and housing fund contributions in Tongxiang, Zhejiang province, and we will not be subject to penalties as a result of our historical practice relating to social security insurance and housing fund contributions. Our PRC Legal Adviser is of the view that (1) save for the non-compliant social security insurance and housing fund contributions as disclosed above, the Company has been in all material respects in compliance with the relevant PRC laws and regulations in relation to social security insurance and housing fund; and (2) on the basis that (a) the Company will not be required to pay the shortfall amount, nor will the Company be subject to any penalties or liabilities in respect of its historical practice relating to social security insurance and housing fund contributions as stated in the confirmations of the relevant competent authorities; (b) Mr. Zhang Yuqiang, the ultimate Controlling Shareholder of the Company, and Zhenshi has undertaken to fully indemnify the Company from all possible liabilities and losses arising from the historic non-compliant social security insurance

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and housing fund contributions; and (c) the Company will continue to make payments of social security insurance and housing fund contributions for its employees as required by the relevant authorities, these non-compliance incidents do not and will not have any material effect on the business conditions of the Company. As such, we did not make any provision for these non-compliance incidents.

For the purpose of on-going compliance with the applicable PRC laws relating to social security insurance and housing fund contributions, on 1 May 2015, we designated an internal legal team to handle matters relating to social security insurance and housing fund contributions. The internal legal team reports directly to our general manager. We have also designated our human resources team to be responsible for contacting the relevant government authorities on a semi-annual basis to ensure that we fulfil our obligation in respect of the social security insurance and housing fund contributions in a timely manner. Our internal legal team and human resources team will jointly investigate into any issue detected. The Company has been seeking the co-operation of the relevant employees to comply with the relevant PRC laws. During the Track Record Period, we have made social security insurance and housing fund contributions as required by the relevant competent authorities. We have been making and will continue to make payments of social security insurance and housing fund contributions for our employees as requested by the relevant authorities.

Indemnity from Mr. Zhang Yuqiang and Zhenshi

Each of Mr. Zhang Yuqiang, our ultimate Controlling Shareholder, and Zhenshi has undertaken to fully indemnify us from all possible liabilities and losses arising from our historic Non-compliant Bill Arrangements, Non-compliant Inter-company Loans and non-compliant social security insurance and housing fund contributions.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Huachen Investment Limited held 43.95% of the issued share capital of the Company and Mr. Zhang Yuqiang held 95.95% of the issued share capital of Huachen Investment Limited. Immediately after completion of the Global Offering and assuming the Over-allotment Option is not exercised, as it is expected that Mr. Zhang Yuqiang will continue to hold 95.95% of the issued share capital of Huachen Investment Limited and Huachen Investment Limited will hold approximately 32.96% of the issued share capital of the Company, Mr. Zhang Yuqiang will be our ultimate Controlling Shareholder.

Mr. Zhang Yuqiang, currently aged 60, is also the Chairman of the Board and a non-executive Director of the Company. Further background details of Mr. Zhang Yuqiang is set forth in the section headed “Directors and Senior Management — Non-executive Director” in this prospectus. Mr. Zhang Yuqiang’s principal business activities are carried on through Zhenshi. As of the Latest Practicable Date, Mr. Zhang Yuqiang directly held 70.28% of the shares in Zhenshi. The Zhenshi Group principally engages in the business of composite materials, special steel, mineral exploitation, real estate, hotel and tourism, health care, logistics and financial investments. As at the Latest Practicable Date, Zhenshi directly held a 19.76% equity interest in China Jushi, a company listed on the Shanghai Stock Exchange in China under the stock code “600176” since April 1999, from which we purchased substantially all of the fiberglass directly in 2012. We also purchased substantially all of our fiberglass indirectly through Zhenshi from February 2013 to March 2015 under its centralised procurement policy. We will, however, cease to purchase fiberglass through Zhenshi from 1 April 2015. Further information regarding our purchases from China Jushi and Zhenshi during the Track Record Period is set forth in the section headed “Business — Suppliers” in this prospectus and further information regarding our connected transactions with Zhenshi is set forth in the section headed “Connected Transactions — Summary of Continuing Connected Transactions”.

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Huamei

Huamei belongs to the Zhenshi Group. As at 30 June 2015, Zhenshi held 94.9% of the shares of Huamei. Huamei principally engages in the manufacturing and marketing of SMC sheets, fiberglass doors and moulded products and engages in the downstream business relating to composite materials. As at 30 June 2015, Huamei had total assets of approximately RMB297.9 million, and its net loss was approximately RMB14.6 million for the six months ended 30 June 2015. The main suppliers of Huamei are producers of raw materials for the manufacture of SMC sheets, fiberglass doors and moulded products and the main customers of Huamei are users of SMC sheets, fiberglass doors and moulded products.

There is no competition between the business of Huamei Composites and the business of the Company. The Company specialises in the manufacturing and selling of fiberglass fabrics which are used as the base materials for wind turbine blades whereas Huamei Composites does not engage in the wind power business and does not manufacture base materials for wind turbine blades. Although Huamei Composites manufactures fiberglass doors, these fiberglass products are completely different from the products of the Company. As a result, the customers of Huamei Composites are very different from the customers of the Company.

Based on the above, the Company has no intention to include the business of Huamei Composites in the Company.

NON-COMPETITION AGREEMENT

In order to avoid any potential competition between the businesses of our Controlling Shareholders and our core business following the Listing, Mr. Zhang Yuqiang, our ultimate Controlling Shareholders, entered into the Non-competition Agreement with us on 2 December 2015. In the Non-competition Agreement, Mr. Zhang Yuqiang confirmed that as of the date of the Non-competition Agreement, neither Mr. Zhang Yuqiang nor any of his associates was engaged or participated in whatever manner in our core businesses. Subject to the exceptions that (i) Mr. Zhang Yuqiang and/or his associates, for investment purposes, purchase or hold not more than 5% interest and voting rights in another listed company which competes or may compete with our core business and do not

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

control such listed company's board of directors and (ii) as a one-off transitional arrangement, Zhenshi US is allowed to sell within one year from the date of the Non-Competition Agreement not more than 900 tonnes of fiberglass fabrics which it has purchased from us before the date of the Non-Competition Agreement, Mr. Zhang Yuqiang agree that he will not, and will procure that none of his associates will:

- whether within or outside China and whether on its own or jointly with other parties, be directly or indirectly engaged or acquire or assist or support in whatever manner in any business that directly or indirectly competes or may compete with our core businesses;
- support in whatever manner, whether within or outside China, any party other than the Group to engage in any business that directly or indirectly competes or may compete with our core businesses; and
- be involved in whatever manner (whether directly or indirectly) in any business that directly or indirectly competes or may compete with our core businesses.

Apart from the above undertakings, if any of Mr. Zhang Yuqiang and his associates becomes aware of any new business opportunity that competes or may compete directly or indirectly with our core businesses, Mr. Zhang Yuqiang will immediately notify us in writing of such opportunity, and will procure that the Company will be given priority in acquiring such business opportunity on reasonable and fair terms and conditions. The Board will decide whether to take up such new business opportunity within 60 days upon the receipt of the above notification. In accordance with our relevant internal corporate governance rules, any conflicting Directors will abstain from voting on the resolutions at the meetings of the Board to consider such new business opportunity and not be physically present at the relevant meeting of the Board whilst the Board is considering such new business opportunity. In the event that Mr. Zhang Yuqiang or any of his associates take up such opportunity with our consent to conduct new business, the Company will have the option to acquire such new business in accordance with the Non-competition Agreement. In the event that any of Mr. Zhang Yuqiang and his associates obtains the abovementioned new business opportunity with our consent, and subsequently intends to transfer, sell, lease, license or otherwise assign or give permission for the use of the new business to a third party during the term of the Non-competition Agreement, we will have the right of first refusal with respect to such new business. Any decision on whether to exercise the above option or right of first refusal will be made by the Board pursuant to the same procedures as described above regarding considering a new business opportunity notified by Mr. Zhang Yuqiang. When considering whether or not to exercise the option or the right of first refusal, the Board will consider, among others, the following factors: the valuation of the relevant business, the performance of the relevant business, the compatibility of the strategy of the relevant business with that of the Company, the prevailing market conditions, the available resources of the Company and other options available to the Company to purchase similar businesses from third parties or establish similar businesses.

The Non-competition Agreement will take effect from the date of execution and shall continue to be effective until the earlier of the following: Mr. Zhang Yuqiang ceases to be a controlling shareholder of the Company (as defined in the Listing Rules), or the Shares are no longer listed on the Stock Exchange (save for suspension of trading in the Shares due to whatever reason).

Mr. Zhang Yuqiang has agreed that he will provide a confirmation on compliance with the Non-competition Agreement to us for disclosure in our annual report. Mr. Zhang Yuqiang further undertakes to provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Agreement. The independent non-executive Directors will review, on an annual basis, the information provided by the Controlling Shareholders in respect of the compliance and enforcement of the Non-competition Agreement. We will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Non-competition Agreement either through the annual report, or by way of announcement to the public.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we are satisfied that we are capable of carrying out our business independently from the Controlling Shareholders and their associates after the Global Offering.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management Independence

The Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. Our management and operational decisions are made by our Directors and senior management. Please refer to the section headed “Directors and Senior Management” in this prospectus for details of their qualifications and experience. Each of the Directors is aware of his/her fiduciary duties as a Director which require, among others, that he/she must act for the benefit of and in the best interests of the Company and not allow any conflict between his/her duties as a Director and his/her personal interests. Further, we believe the independent non-executive Directors bring independent judgment to the decision-making process of the Board. In addition, the Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in, together with the other non-executive Directors, which he/she or any of his/her close associates has a material interest and shall not be counted in the quorum present at the particular Board meeting.

Among our nine Directors, Mr. Zhang Yuqiang is our ultimate Controlling Shareholder and Mr. Zhang Jiankan (the son of Mr. Zhang Yuqiang) is an associate of Mr. Zhang Yuqiang. Each of Mr. Zhang Yuqiang and Mr. Zhang Jiankan holds directorship positions in the Zhenshi Group. Both Mr. Zhang Yuqiang and Mr. Zhang Jiankan, as non-executive Directors, are not involved in the day-to-day management of the Company, and are primarily responsible for formulating the overall development strategies and business plans of the Group. Another non-executive Director, Mr. Wang Yuan, is a Vice President of Zhenshi and the Chairman of Zhenshi Indonesia. The other six Directors do not hold any directorship or senior management position with any of our Controlling Shareholder’s group. Our executive Directors, Mr. Zhou Tingcai and Ms. Huang Junjun, work full-time for the Company and are our General Manager and Vice General Manager respectively. Mr. Zhou and Ms. Huang are responsible for overseeing the day-to-day operations of our Company. They do not hold any position in the rest of our Controlling Shareholder’s group. Each of our Directors can give sufficient time and attention to our affairs, notwithstanding their other working commitments. Apart from the transactions set out in the section headed “Connected Transactions” in this prospectus, the Directors do not expect there to be any significant transactions between the Group on one hand and the ultimate Controlling Shareholders and their associates on the other hand upon or shortly after the Listing.

Based on the above, we are satisfied that the Board as a whole together with our senior management team are able to perform the managerial role in the Company independently.

Operational Independence

Although the Controlling Shareholder will retain a controlling interest in the Company after the Listing, we have full rights to make all decisions regarding, and to carry out, our own business operations independently, subject to applicable laws and the Articles. The Company holds or enjoy the benefit of all relevant licenses necessary to carry out our businesses, and has sufficient capital equipment and employees to operate our business independently from the Controlling Shareholders. We do not rely on the Controlling Shareholders for operational, administration or human resources and has been carrying out our own business operations independently. In addition, our organisational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal control measures to facilitate the effective operation of our business. Based on the above, the Directors are satisfied that we have been operating independently from the Controlling Shareholders and their associates during the Track Record Period and will continue to operate independently.

Financial Independence

The Group has its own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment, and hence the ability to operate independently of the Controlling Shareholders from a financial perspective. In addition, the Group does not rely on the Controlling Shareholders and/or their associates by virtue of their provision of financial assistance. As of the Latest Practicable Date, none of the Controlling Shareholders or their associates had provided any loans, guarantees or pledges to the Group. As of the Latest Practicable Date, the Group did not provide any loans, guarantees or other financial assistance to the Controlling Shareholders or their associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Based on the above, we believe that we are able to maintain financial independence from the Controlling Shareholders and their associates.

CORPORATE GOVERNANCE MEASURES

We believe that there are adequate corporate governance measures in place to manage existing and potential conflict of interest. In order to further avoid potential conflict of interests, we have implemented the following measures:

- (a) as part of preparation for the Global Offering, we have amended our Articles to comply with the Listing Rules. In particular, our Articles provide that, unless otherwise provided therein, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the meeting;
- (b) a Director with material interests in a contract or arrangement or proposed contract or arrangement with the Company is required to declare the nature of his interest at the earliest meeting of the Board either specifically or by way of a general notice stating that, by reason of facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may subsequently be made by the Company;
- (c) we are committed that the Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of the public Shareholders. Details of the independent non-executive Directors are set out in the section headed “Directors and Senior Management — Directors — Independent Non-executive Directors” in this prospectus;
- (d) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between the Group on the one hand and the Controlling Shareholders and/or the Directors on the other, the Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and the Company shall disclose the decisions of the independent non-executive Directors (including why business opportunities referred to it by the Controlling Shareholders were not taken up) either through its annual report or by way of announcements; and
- (e) we have appointed Guotai Junan Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and corporate governance.

Mr. Zhang Yuqiang is interested, directly and indirectly through Zhenshi, in approximately 19.76% of the equity interest in China Jushi. In respect of transactions between the Group and China Jushi and/or its subsidiaries (“**China Jushi Group**”), the Company implements the following corporate governance measures to address any potential conflict of interest:

- (1) Any transaction (or a series of transactions of the same nature over a 12 month period) between the relevant member of the Group and the China Jushi Group (a “**Relevant Transaction**”) with a value exceeding HK\$1 million will be required to be authorised by the board of directors of the relevant member of the Group. Mr. Zhang Yuqiang will be considered to have a material interest in such transaction as he is also the general manager and a director of China Jushi and is interested in approximately 20% in China Jushi. Thus, Mr. Zhang Yuqiang and his associates will abstain from attending the board meeting of the relevant member of the Group for approving the relevant transaction and abstain from voting in respect of the relevant board resolution.
- (2) As China Jushi is a company listed on the Shanghai Stock Exchange, Chapter 10 of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange (“**Shanghai Listing Rules**”) regulates

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

the Relevant Transactions as connected transactions of China Jushi and requires compliance of the relevant disclosure, shareholders' approval and reporting requirements under the Shanghai Listing Rules. In particular:

- (a) Mr. Zhang Yuqiang, as the “actual controller” (實際控制人) (as defined under the Shanghai Listing Rules) and director of the Company and the director of China Jushi, and any other person who is as a result considered to be a “connected person” (關聯人) of China Jushi under the Shanghai Listing Rules (including his close relatives with voting rights in the relevant board of directors) is required under the Shanghai Listing Rules to abstain from voting in respect of any resolution of the board of directors of China Jushi or its subsidiary for approving any Relevant Transaction;
- (b) If a Relevant Transaction requires shareholders' approval, Mr. Zhang Yuqiang and Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital, are required under the Shanghai Listing Rules to abstain from voting in respect of the resolution for approving that Relevant Transaction. In particular, the Relevant Transactions for the year 2015 have been approved by the shareholders of China Jushi at their annual general meeting held on 9 April 2015. Mr. Zhang Yuqiang and Zhenshi abstained from voting in respect of the relevant resolution. According to the relevant circular issued by China Jushi, the consideration of the Relevant Transactions under approval would be determined based on market prices to ensure such Relevant Transactions are fair, just and transparent; and
- (c) If a Relevant Transaction requires disclosure by way of an announcement under the Shanghai Listing Rules, the announcement is required to contain an explanation for any material difference between the consideration of the Relevant Transaction and the relevant book value, appraised value or market value. China Jushi issued an announcement on 16 March 2015 in relation to, among other things, the details of the Relevant Transactions that took place in 2014 and the proposed Relevant Transactions for the year of 2015 (which were subject to the above shareholders' approval). The independent non-executive directors of China Jushi confirmed in the announcement that the consideration of the Relevant Transactions in 2014 was based on fair market value.

As a result of the above, the Relevant Transaction will be subject to independent assessment and approval by both parties. Mr. Zhang Yuqiang, (in respect of the Group) his associates and (in respect of the China Jushi Group) his related “connected persons” (關聯人) under the Shanghai Listing Rules will not be participating in the decision relating thereto either on the side of the Group or the side of China Jushi Group.

- (3) The Company enters into annual procurement agreements with China Jushi which contain fixed prices for the supply of different types of fiberglass. The Company has sought, and will seek, quotations from at least two independent fiberglass suppliers before entering into such an agreement to ensure that the prices and terms offered by China Jushi in respect of the sale of fiberglass to the Company are fair and reasonable, in the interest of its shareholders as a whole and comparable to those offered by the other fiberglass suppliers.
- (4) According to International Accounting Standard 24 “Related Party Disclosures”, Mr. Zhang Yuqiang is a related party of the Group. The Relevant Transactions constitute related party transactions. As such, particulars of the related party transactions and outstanding balances during the Track Record Period have been separately disclosed in Appendix I to this prospectus, and will continue to be disclosed in the Group's consolidated financial statements after the Listing.
- (5) The Company will voluntarily include in its annual report for the financial year in which the Relevant Transactions are conducted:
 - (a) the transaction date;
 - (b) a brief description of the Relevant Transaction and its purpose;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (c) the total consideration and terms;
- (d) the basis upon which the consideration was determined;
- (e) reasons for entering into the Relevant Transaction and the benefits which are expected to accrue to the Company as a result of such transaction; and
- (f) the views of its independent non-executive Directors and confirmation from its auditors similar to those for non-exempt connected transactions under the Listing Rules, including:
 - (A) the independent non-executive Directors' views on:
 - (i) whether the terms of the Relevant Transaction are fair and reasonable;
 - (ii) whether the Relevant Transaction is on normal commercial terms or better and in the ordinary and usual course of business of the Group; and
 - (iii) whether the Relevant Transaction is in the interests of the Company and its shareholders as a whole; and
 - (B) in respect of a Relevant Transaction of a continuing nature, a statement from the board of directors of the Company whether the auditors have confirmed whether anything has come to their attention that causes them to believe that the Relevant Transaction:
 - (i) has not been approved by the Board of Directors of the Company;
 - (ii) was not, in all material respects, in accordance with the pricing policies of the Group if the Relevant Transaction involves the provision of goods or services by the Group; and
 - (iii) was not entered into, in all material respects, in accordance with the relevant agreement governing the transaction.

CONNECTED TRANSACTIONS

RELEVANT CONNECTED PERSONS OF THE COMPANY

Under the Listing Rules, the following persons and entities, among others, will be regarded as connected persons of the Company after Listing:

1. Mr. Zhang Yuqiang and his associates

Mr. Zhang Yuqiang is the chairman of the Company, a non-executive Director and the ultimate Controlling Shareholder.

Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital, is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company.

In addition, the following companies, each of which is a subsidiary of Zhenshi, are associates of Mr. Zhang Yuqiang and therefore connected persons of the Company:

- (a) Zhenshi Group Zhejiang Yushi International Logistics Company Limited (振石集團浙江宇石國際物流有限公司) (“**Yushi International**”)
- (b) Zhenshi Group Huamei New Materials Company Limited (振石集團華美新材料有限公司) (“**Huamei**”)
- (c) Inspirock Hotel Company Limited (振石大酒店有限公司) (“**Inspirock**”)
- (d) Tongxiang Chengshi Travel Company Limited (桐鄉誠石旅遊有限公司) (“**Tongxiang Chengshi**”)
- (e) Tongxiang Kangshi Traditional Chinese and Western Medical Clinic Company Limited (桐鄉康石中西醫結合門診有限公司) (“**Tongxiang Kangshi**”)

2. Shanghai Tianshi International Logistics Company Limited (上海天石國際貨運代理有限公司) (“**Shanghai Tianshi**”)

Mr. Zhang Jiankan is a non-executive Director. Shanghai Tianshi, of which Mr. Zhang Jiankan is interested in 70% of the registered capital, is an associate of Mr. Zhang Jiankan and therefore a connected person of the Company.

CONNECTED TRANSACTIONS

SUMMARY OF CONTINUING CONNECTED TRANSACTIONS

Set out below is a summary of the continuing connected transactions between the Group and the connected persons of the Company that will continue after Listing:

Transaction	Applicable Listing Rule	Waiver sought	Historical figures (RMB thousand)			Annual caps (RMB thousand)			
			For the year ended 31 December			For the six months ended 30 June	For the year ending 31 December		
			2012	2013	2014	2015	2015	2016	2017
<i>Non-exempt continuing connected transaction subject to reporting, announcement and independent shareholders' approval requirements</i>									
Procurement of logistics services from Yushi International	14A.35, 14A.36 and 14A.46	Announcement and independent shareholders' approval requirements	13,381	17,759	28,843	23,342	45,808	54,407	72,225
<i>Non-exempt continuing connected transaction subject to reporting and announcement requirements</i>									
Procurement of export agency services from Shanghai Tianshi	14A.35, 14A.76(2)	Announcement requirement	2,375	6,404	8,697	5,494	13,810	15,854	20,297
<i>Exempt continuing connected transactions — de minimus</i>									
Sale of fiberglass fabrics to Huamei	14A.76(1)	N/A	137	1	0	0	N/A	N/A	N/A
Lease to Yushi International	14A.76(1)	N/A	N/A	N/A	151	147	N/A	N/A	N/A
Licensing of Zhenshi Trademarks from Zhenshi to the Group	14A.76(1)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<i>Exempt continuing connected transactions — buying consumer services</i>									
Procurement of accommodation and catering services from Inspirock	14A.97	N/A							
Procurement of travel services from Tongxiang Chengshi	14A.97	N/A							
Procurement of health check services from Tongxiang Kangshi	14A.97	N/A							

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS OF THE LISTING RULES

The following transaction will be a non-exempt continuing connected transaction of the Company after Listing which is subject to reporting, announcement and independent shareholders' approval requirements of the Listing Rules.

CONNECTED TRANSACTIONS

Procurement of logistics services from Yushi International

Background

Yushi International is a company which specialises in providing logistics services. The Group has been procuring from Yushi International logistics services by which Yushi International (1) transports the fiberglass purchased by the Company from China Jushi to the production plants of the Group, (2) provides to the Company export agency services, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Group to its customers overseas, and (3) provides to the Company import agency services, including customs declaration and domestic transportation, in respect of imported raw materials (collectively “**Logistics Services**”).

The Group had until May 2014 been engaging Jiujiang Yushi International Logistics Company Limited (九江宇石國際物流有限公司) (“**Jiujiang Yushi**”) and Sichuan Yushi International Logistics Company Limited (四川宇石國際物流有限公司) (“**Sichuan Yushi**”), each of which a subsidiary of Zhenshi, to transport the fiberglass purchased by the Company from China Jushi to the production plants of the Group. Since May 2014, China Jushi has been responsible for the relevant transportation arrangement through its outsourcing arrangements with logistics service providers including Jiujiang Yushi and Sichuan Yushi. The Group has not engaged Jiujiang Yushi and Sichuan Yushi for any logistics services since May 2014.

Description of future transaction and principal terms

In anticipation of the Global Offering, the Company entered into with Yushi International a framework agreement dated 2 December 2015 (“**Yushi International Framework Agreement**”), under which Yushi International agrees to provide Logistics Services to the Group. Pursuant to the Yushi International Framework Agreement, the Company and/or any of its subsidiaries and Yushi International will enter into written agreements to set out the detailed terms and conditions under which Yushi International will provide the Logistics Services.

Under the Yushi International Framework Agreement, Yushi International has agreed that:

- (a) it will not provide Logistics Services to any independent third party unless it has first satisfied the needs of the Group for such services;
- (b) if it cannot satisfy the need of the Group for Logistic Services or if independent third parties can offer terms more favourable than those offered by it, the Group is entitled to procure Logistic Services from independent third parties;
- (c) it is entitled to provide Logistics Services to independent third parties provided that this will not affect its provision of Logistics Services to the Group;
- (d) it will not, and will procure its subsidiaries (if any) not to, provide Logistics Services or other services to the Group on terms which are less favourable than those offered to independent third parties; and
- (e) the Yushi International Framework Agreement will not affect the Group’s right to choose its counterparty for transactions or enter into transactions with third parties.

Reasons for, and benefits of, the arrangement

The Group engages logistics agents to provide logistics services to the Group. Yushi International has been appointed on an annual basis as one of its logistics agents following a competitive tender process since 2013 to provide Logistics Services to the Group.

Price determination

The Group conducts a competitive tender process at the beginning of each year to select the logistics agents which will provide Logistics Services to the Group during the year. During the competitive tender process, the Group seeks quotations from at least three logistics agents. Logistics agents which are invited to submit quotations may include logistics agents which provided or have been providing export agency services to the

CONNECTED TRANSACTIONS

Group and other logistics agents which have the capability for offering the Logistics Services required by the Group. The Group assesses the candidates by reference to a number of factors including prices, service levels geographical location, scale of operation and reputation. A logistics agent which is so selected provides the Logistics Services to the Group according to a further negotiated pre-determined price schedule for a term of one year. If the selected logistics agent wishes to deviate from the pre-determined price schedule in providing a Logistic Service to the Group under special circumstances, the Group will seek quotations from at least two other logistics agents and may exercise its right to procure that Logistic Service from another logistics agent which offers better terms to the Group. This pricing mechanism ensures that the pricing terms at which the Group solicits Logistics Services from a logistics agent are fair and reasonable.

Yushi International has been appointed on an annual basis as one of its logistics agents after undergoing the above competitive tender processes since 2013 to provide Logistics Services to the Group. The Yushi International Framework Agreement sets out the prices at which Yushi International will provide Logistics Services to the Group after the Listing Date. Under the Yushi International Framework Agreement, the Group is entitled to conduct the competitive tender process described above in this sub-section during the term of the Yushi International Framework Agreement. If Yushi International is selected after the competitive tender process for a particular year, the prices at which Yushi International provides its Logistics Services under the Yushi International Framework Agreement will be revised in accordance with further negotiated terms which are no less favourable to the terms of the tender submitted by Yushi International for that year. Irrespective of whether or not Yushi International is selected after the competitive tender process, the Group may exercise its right to procure Logistics Services from independent third parties.

Term and termination

The effective period of the Yushi International Framework Agreement is from the Listing Date to 31 December 2017. The Yushi International Framework Agreements can be terminated if the connected transaction under the Yushi International Framework Agreement may lead to non-compliance with the requirements for connected transactions under the Listing Rules. Upon expiry of the term of the Yushi International Framework Agreement, the Company has an option to extend the term for another three years by signing a renewal or supplemental framework agreement.

Historical figures

For each of the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Group's total expenditure payable to Yushi International in respect of the Logistics Services was approximately RMB13,381,000, RMB17,759,000, RMB28,843,000 and RMB23,342,000, respectively.

Annual caps

For each of the three years ending 31 December 2015, 2016 and 2017, the total forecast amount payable by the Group to Yushi International under the Yushi International Framework Agreement is approximately RMB45,808,000, RMB54,407,000 and RMB72,225,000, respectively. Such forecasts are based on the Company's consideration of the following factors: (i) historical transaction values; (ii) the projected growth of the sale of our fiberglass fabrics products; (iii) the expected mix of international and PRC orders; and (iv) the expected proportion of Logistics Services to be provided by Yushi International. In determining the aforementioned annual caps, the Company assumes a gradually decreasing trend of the proportion of Logistics Services to be provided by Yushi International.

Listing Rules requirements

Yushi International, being a subsidiary of Zhenshi, is an associate of Mr. Zhang Yuqiang and is therefore a connected person of the Company. The Yushi International Framework Agreement constitutes a continuing connected transaction of the Company after Listing. It is subject to reporting, announcement and independent shareholders' approval requirements in Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTION SUBJECT TO REPORTING AND ANNOUNCEMENT REQUIREMENTS OF THE LISTING RULES

The following transaction will be a non-exempt continuing connected transaction of the Company after the Listing which is subject to reporting and announcement requirements of the Listing Rules.

Procurement of export agency services from Shanghai Tianshi

Background

Shanghai Tianshi is a company based in Shanghai which specialises in providing export agency services. The Group has been engaging Shanghai Tianshi to provide to the Group export agency services, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Group to its customers overseas since 2012 in its ordinary and usual course of business.

Description of future transaction and principal terms

In anticipation of the Global Offering, the Company entered into with Shanghai Tianshi a framework agreement dated 2 December 2015 (“**Tianshi Framework Agreement**”), under which Shanghai Tianshi agrees to provide export agency services to the Group.

Pursuant to the Tianshi Framework Agreement, the Company and/or any of its subsidiaries and Shanghai Tianshi will enter into written agreements to set out the detailed terms and conditions under which Shanghai Tianshi will provide the export agency services.

Under the Tianshi Framework Agreement, Shanghai Tianshi has agreed that:

- (a) it will not provide export agency services to any independent third party unless it has satisfied the needs of the Group for such services;
- (b) if it cannot satisfy the need of the Group for export agency services or if independent third parties can offer terms more favourable than those offered by it, the Group is entitled to procure export agency services from independent third parties;
- (c) it is entitled to provide export agency services to independent third parties provided that this will not affect its provision of export agency services to the Group;
- (d) it will not, and will procure its subsidiaries (if any) not to, provide export agency services or other services to the Group on terms which are less favourable than those offered to independent third parties; and
- (e) the Tianshi Framework Agreement will not affect the Group’s right to choose its counterparty for transactions or enter into transactions with third parties.

Reasons for, and benefits of, the arrangement

The Group engages export agents to provide export-related services including freight booking and customs clearance to export its fiberglass fabric products to its customers overseas. Shanghai Tianshi has been appointed on an annual basis as one of its export agents following a competitive tender process since 2012 to provide export agency service to the Group. The Group uses mainly Shanghai Tianshi, which is based in Shanghai, to export its fiberglass fabric products through Shanghai to its customers in the Americas.

Price determination

The Group conducts a competitive tender process at the beginning of each year to select the export agents which will provide export agency services to the Group during the year. During the competitive tender process, the Group seeks quotations from at least three export agents. Export agents which are invited to submit quotations may include export agents which provided or have been providing export agency services to the Group and other export agents which have the capability for offering the export agency services required by the Group. The Group assesses the candidates by reference to a number of factors including prices, service levels, geographical location, scale of operation and reputation. An export agent which is so selected provides the export

CONNECTED TRANSACTIONS

agency services to the Group according to a further negotiated pre-determined price schedule for a term of one year. If the selected export agent wishes to deviate from the pre-determined price schedule in providing an export agency service to the Group under special circumstances, the Group will seek quotations from at least two other export agents and may exercise its right to procure that export agency service from an export agent which offers better terms to the Group. This pricing mechanism ensures that the pricing terms at which the Group solicits export agency services from an expert agent are fair and reasonable.

Shanghai Tianshi has been appointed on an annual basis as one of its export agents after undergoing the above competitive tender processes since 2012 to provide export agency service to the Group. The Tianshi Framework Agreement sets out the prices at which Shanghai Tianshi will provide its export agency services to the Group after the Listing Date. Under the Tianshi Framework Agreement, the Group is entitled to conduct the competitive tender process described above in this sub-section during the term of the Tianshi Framework Agreement. If Shanghai Tianshi is selected after the competitive tender process for a particular year, the prices at which Shanghai Tianshi provides its export agency services under the Tianshi Framework Agreement will be revised in accordance with further negotiated terms which are no less favourable to the terms of the tender submitted by Shanghai Tianshi for that year. Irrespective of whether or not Shanghai Tianshi is selected after the competitive tender process, the Group may exercise its right to procure export agency services from independent third parties.

Term and termination

The effective period of the Tianshi Framework Agreement is from the Listing Date to 31 December 2017. The Tianshi Framework Agreement can be terminated if the connected transaction under the Tianshi Framework Agreement may lead to non-compliance with the requirements for connected transactions under the Listing Rules. Upon expiry of the term of the Tianshi Framework Agreement, the Company has an option to extend the term for another three years by signing a renewal or supplemental framework agreement.

Historical figures

For each of the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the Group's total expenditure in relation to the export agency services provided by Shanghai Tianshi was approximately RMB2,375,000, RMB6,404,000, RMB8,697,000 and RMB5,494,000, respectively.

Annual caps

For each of the three years ending 31 December 2015, 2016 and 2017, the total forecast amount payable by the Group to Shanghai Tianshi under the Tianshi Framework Agreement is approximately RMB13,810,000, RMB15,854,000 and RMB20,297,000, respectively. Such forecasts are based on the Company's consideration of the following factors: (i) historical transaction values; (ii) the projected growth of the sale of our fiberglass fabrics products; (iii) the expected mix of international and PRC orders; and (iv) the expected proportion of export agency services to be provided by Shanghai Tianshi. In determining the aforementioned annual caps, the Company assumes a gradually decreasing trend of the proportion of export agency services to be provided by Shanghai Tianshi.

Listing Rules requirements

Mr. Zhang Jiankan is a non-executive Director. Shanghai Tianshi, of which Mr. Zhang Jiankan is interested in 70% of the registered capital, is an associate of Mr. Zhang Jiankan and therefore a connected person of the Company. The Tianshi Framework Agreement constitutes a continuing connected transaction of the Company after Listing.

As the highest relevant percentage ratio in respect of the Tianshi Framework Agreement will on an annual basis be more than 0.1% but less than 5% and it is on normal commercial terms, the Tianshi Framework Agreements will be exempt pursuant to Rule 14A.76(2) of the Listing Rules from the independent shareholders' approval requirement but will be subject to the reporting and announcement requirements in Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

CONFIRMATION OF THE DIRECTORS AND THE SOLE SPONSOR

The Directors are of the view that each of the continuing connected transactions referred to above has been entered into in the ordinary and usual course of business of the Company and is on normal commercial terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole and that the proposed annual caps for each of the transactions are fair and reasonable and in the interests of the Shareholders as a whole.

The Sole Sponsor has reviewed the relevant documents, information and historical figures provided by the Company, conducted due diligence and discussions with the Company and its advisers, and obtained various representations and confirmations from the Company. Based on the Sole Sponsor's due diligence, the Sole Sponsor confirms that it is of the view that each of the continuing connected transactions referred to above is in the ordinary and usual course of business of the Company and is on normal commercial terms that are fair and reasonable and in the interests of the Shareholders as a whole and the proposed annual caps for each of the transactions are fair and reasonable and in the interests of the Shareholders as a whole.

WAIVERS FROM THE STOCK EXCHANGE

As the material terms of each of the transactions above are disclosed in this prospectus and potential investors will participate in the Global Offering on the basis of the disclosures, the Company considers that strict compliance with the announcement requirement and, where applicable, the independent shareholders' approval requirement under the Listing Rules would add unnecessary administrative costs to the Company and waivers from strict compliance of these requirements would not result in undue risks to Shareholders and investors.

Accordingly, the Company has applied to the Stock Exchange for, and has been granted:

- (i) a waiver under Rule 14A.105 of the Listing Rules from strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transaction set out in the sub-section headed "Non-exempt continuing connected transaction subject to reporting, announcement and independent shareholders' approval requirements of the Listing Rules" in this section; and
- (ii) a waiver under Rule 14A.105 of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the transaction set out in the sub-section headed "Non-exempt continuing connected transactions subject to reporting and announcement requirements of the Listing Rules" in this section.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

De minimus transactions

We have entered into the following continuing connected transactions which are expected to continue after Listing. Since (i) the highest relevant percentage of each of the following transactions is expected to be below 5%, (ii) the value of each of the following transactions on an annual basis is expected to be less than HK\$3 million, and (iii) each of the following transactions is on normal commercial terms, each of the following transactions will be exempt pursuant to Rule 14A.76(1) of the Listing Rules from the reporting, announcement and independent shareholders' approval requirements in Chapter 14A of the Listing Rules.

Sale of fiberglass fabrics to Huamei

The Group sells to Huamei from time to time fiberglass fabric products. Further details about the use of fiberglass fabrics by Huamei are set out in the section headed "Relationship with Our Controlling Shareholders — Zhenshi Group Huamei New Materials Company Limited" in this prospectus. Huamei, being a subsidiary of Zhenshi, is an associate of Mr. Zhang Yuqiang and is therefore a connected person of the Company. For each of the three years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015, the total sale to Huamei was approximately RMB137,000, RMB1,000, nil and nil, respectively.

CONNECTED TRANSACTIONS

Lease to Yushi International

Pursuant to a tenancy agreement between Hengshi Fiberglass (as landlord) and Yushi International (as tenant) dated 15 June 2014 as renewed on 1 January 2015 (the “**Yushi Tenancy Agreement**”), the Group leases to Yushi International a dormitory building of a total gross floor area of 3,494.85 square metres at 145, Guangyun South Road, Wutong Jie Dao, Tongxiang City, Zhejiang Province, PRC (中國浙江省桐鄉市梧桐街道廣運南路145號) for an aggregate monthly rent of RMB25,200 (excluding utility charges). The building forms a part of the real property the particulars of which are set out in Appendix III “Property Valuation” to this prospectus. Yushi International, being a subsidiary of Zhenshi, is an associate of Mr. Zhang Yuqiang and is therefore a connected person of the Company. For the year ended 31 December 2014 and the six months ended 30 June 2015, the total rent received by the Group from Yushi International under the Yushi Tenancy Agreement was approximately RMB143,000 and RMB147,000, respectively. The Group did not receive from Yushi International any rent under the Yushi Tenancy Agreement for each of the two years ended 31 December 2012 and 2013.

Licensing of Zhenshi Trademarks from Zhenshi to the Group

The Company, Hengshi Fiberglass and Zhenshi entered into a trademark licensing agreement on 2 December 2015 (the “**Trademark Licensing Agreement**”), under which Zhenshi has agreed to license to the Group for free a non-exclusive right to use the Zhenshi Trademarks within the scope specified in the Trademark Licensing Agreement. The term of the Trademark Licensing Agreement is three years from the Listing Date. The Trademark Licensing Agreement will be renewed automatically for a term of three years unless the Company notifies Zhenshi in writing that the agreement will not be renewed. Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital, is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company. During the Track Record Period, the Company did not pay any fee to Zhenshi for using the Zhenshi Trademarks.

Buying consumer services

The Group procures from time to time the following services which are of a type ordinarily supplied for private use or consumption for the purpose of Chapter 14A of the Listing Rules:

- (a) dining and accommodation services from Inspirock Hotel, which is wholly owned by Inspirock, in Tongxiang, Zhejiang Province in the PRC for its guest visitors. Inspirock, being a subsidiary of Zhenshi, is an associate of Mr. Zhang Yuqiang and is therefore a connected person of the Company;
- (b) travel services in relation to business travel made by its employees from Tongxiang Chengshi. Tongxiang Chengshi, being a subsidiary of Zhenshi, is an associate of Mr. Zhang Yuqiang and is therefore a connected person of the Company; and
- (c) health check services for its employees from Tongxiang Kangshi. Tongxiang Kangshi, being a subsidiary of Zhenshi, is an associate of Mr. Zhang Yuqiang and is therefore a connected person of the Company.

Our procurement of the above consumer services are (i) made in its ordinary and usual course of business, (ii) made on equivalent terms as those available to independent third-party consumers procuring such consumer services from such connected persons in the open market, and (iii) for our own consumption and not for resale. Under Rule 14A.97 of the Listing Rules, such transactions are exempted from the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

NON-RECURRENT CONNECTED TRANSACTIONS

Acquisition of a property

On 4 December 2015, Hengshi Fiberglass, a wholly-owned subsidiary of the Company, entered into a property sale and purchase agreement with Zhenshi, pursuant to which Zhenshi agreed to sell and Hengshi

CONNECTED TRANSACTIONS

Fiberglass agreed to purchase three floors of office space (the “Property”) in a building which is under construction at Gexin Area, Zhendong New District, Tongxiang, Zhejiang Province, the PRC (中國浙江省桐鄉市振東新區革新區塊) for a total consideration of approximately RMB75.9 million. The total planned gross floor area of the Property is approximately 3,300 square metres upon completion. The Property is scheduled for delivery by 2018.

The total consideration for the acquisition of the Property was arrived at after arm’s length negotiation between the parties based on the prevailing market price for similar properties in the areas transacted around the time of the negotiation. The consideration is to be satisfied in cash by instalment payments as follows.

Timing	Payment amount
Within three months after signing of the agreement	70% of the total consideration
By the first anniversary of the agreement	15% of the total consideration
By the second anniversary of the agreement	The balance of the consideration

We intend to settle part of the consideration, being approximately RMB59 million, by part of the net proceeds of the Global Offering. We intend to settle the remainder of the consideration by our own internal resources.

The Property will be used by our Group as our office. As our business continues to grow, we need more space to accommodate our expanding team of staff. After searching for possible sites, we believe the Property is a good venue for this purpose, as the area in which the property is located is a focused development and planning zone (重點發展規劃區) for business and commercial use.

The Directors are of the view that the terms and conditions of this acquisition are fair and reasonable and are in the interests of the Company and the shareholders of the Company as a whole.

Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital, is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company upon Listing. On the basis that the sale and purchase agreement is a one-off transaction entered into by the Company prior to Listing, the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules will not apply.

The address of Zhenshi is Fuxing South Road, Tongxiang City, Zhejiang Province, the PRC.

Non-competition agreement

The Company entered into the Non-competition Agreement with Mr. Zhang Yuqiang on 2 December 2015. Further details about the Non-competition Agreement are set out in the section headed “Relationship with Our Controlling Shareholders — Non-competition Agreement” in this prospectus.

Mr. Zhang Yuqiang, being the chairman of the Company, a non-executive Director and the ultimate Controlling Shareholder, is a connected person of the Company. Should the Company elect to exercise the option or right of first refusal granted to the Company under the Non-competition Agreement to acquire any interests from Mr. Zhang Yuqiang and/or his associates after the Listing, the Company will comply with the relevant requirements of the Listing Rules in relation to notifiable and/or connected transactions.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of nine Directors, comprising two executive Directors, four non-executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening general meetings implementing the resolutions passed at the general meetings, determining business and investment plans, formulating our annual financial budget and final accounts, and formulating our proposals for profit distributions as well as exercising other powers, functions and duties as conferred by our Articles. We have entered into service contracts with the executive Directors. We have also entered into letters of appointment with each of the non-executive Directors and independent non-executive Directors.

Our senior management is responsible for the day-to-day management and operations of our businesses.

The following table sets forth certain information in respect of the Directors and senior management:

Name	Age	Position	Date of appointment	Date of joining of the Group	Current position and key role	Relationship with other Directors or senior management
Directors						
Mr. ZHANG Yuqiang (張毓強)	60	Chairman of the Board and non-executive Director	February 2015	January 2004	Formulating overall development strategies and business plans of the Group	Father of Mr. Zhang Jiankan
Mr. ZHANG Jiankan (張健侃)	32	Non-executive Director	February 2015	September 2013	Participating in formulating the strategic development plans of the Group	Son of Mr. Zhang Yuqiang
Mr. TANG Hsin-hua (唐興華)	62	Non-executive Director	May 2015	January 2004	Participating in formulating the strategic development plans of the Group	None
Mr. WANG Yuan (王源)	37	Non-executive Director	May 2015	May 2015	Participating in formulating the strategic development plans of the Group	None
Mr. ZHOU Tingcai (周廷才)	50	Executive Director and general manager	May 2015	November 2014	Responsible for the overall operations of the Group	None
Ms. HUANG Junjun (黃鈞筠)	35	Executive Director and Deputy general manager	May 2015	2008	Responsible for sales and foreign trade	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment	Date of joining of the Group	Current position and key role	Relationship with other Directors or senior management
Mr. FANG Xianbai (方賢柏)	77	Independent non-executive Director	May 2015	May 2015	Supervising and providing independent judgment to the board	None
Mr. CHEN Zhijie (陳志傑)	44	Independent non-executive Director	May 2015	May 2015	Supervising and providing independent judgment to the board	None
Mr. PAN Fei (潘飛)	59	Independent non-executive Director	May 2015	May 2015	Supervising and providing independent judgment to the board	None

Senior Management

Mr. ZHOU Tingcai (周廷才)	50	General manager	November 2014	November 2014	Responsible for the overall operations of the Group	None
Ms. HUANG Junjun (黃鈞筠)	35	Deputy general manager	January 2014	2008	Responsible for sales and foreign trade	None
Mr. RAO Chaofu (饒朝富)	41	Chief financial officer	May 2015	May 2015	Responsible for financial affairs	None
Mr. LI Hui (李輝)	36	Deputy general manager	January 2009	January 2007	Responsible for comprehensive administrative management and products quality control	None

Non-executive Directors

Mr. ZHANG Yuqiang (張毓強), aged 60, is the chairman of the Board and a non-executive Director. Mr. ZHANG was appointed as our Director in February 2015 and is primarily responsible for formulating the overall development strategies and business plans of the Group. Mr. ZHANG is also the chairman of Zhenshi, the general manager and a director of China Jushi and the chairman of Jushi Group. Mr. ZHANG is also the vice chairman of China Building Materials Federation (中國建築材料聯合會) and China Composites Industry Association (中國複合材料工業協會) as well as the vice chairman of China Fiberglass Industry Association (中國玻璃纖維工業協會). From August 1971 to June 1989, Mr. ZHANG had worked as a staff worker, workshop manager, chief of the production unit, vice director and director of Tongxiang Fiberglass Factory (桐鄉玻纖廠). Mr. ZHANG founded Tongxiang Zhenshi Company Ltd. (桐鄉振石股份有限公司), the predecessor of Zhenshi in June 1989 and has been acting as the chairman ever since. Mr. ZHANG founded Jushi Group Co., Ltd. (巨石集團有限公司) in March 1993 and has been acting as the chairman ever since. Since March 1999,

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Mr. ZHANG has been acting as the vice chairman, general manager and chief executive officer of China Jushi, previously known as China Fiberglass Co., Ltd. (中國玻纖股份有限公司) and China Chemical Building Materials Company Ltd. (中國化學建材股份有限公司).

Mr. ZHANG has over 40 years working experience in the fiberglass industry. Mr. ZHANG obtained the qualification certificate of senior engineer (professor level) conferred by China National Building Material Company Ltd. (中國建築材料集團公司) in December 2008. Mr. ZHANG has received numerous awards and enjoyed special government allowance from the State Council for his outstanding contribution to the building materials industry. In 2009, Mr. ZHANG was voted by Forbes as the best chief executive officer of listed companies in China.

Mr. ZHANG participated the MBA courses held by Zhejiang University of Technology (浙江工業大學) and received a programme certificate in December 2002.

Mr. ZHANG Jiankan (張健侃), aged 32, is a non-executive Director. Mr. ZHANG was appointed as our Director in February 2015 and participates in formulating the strategic development plans of the Group. Mr. ZHANG has also been the chairman of the board of directors of Hengshi Fiberglass since September 2013. Mr. ZHANG joined Zhenshi in January 2009 and has been acting as the assistant to the president ever since. Prior to joining Zhenshi, Mr. ZHANG had acted as project manager at Beijing Hony Future Investment Advisor Ltd. (北京弘毅遠方投資顧問有限公司) from January 2008 to December 2008. Mr. ZHANG graduated from Tongxiang High School (桐鄉高級中學) in July 2002, Tongxiang, China.

Mr. TANG Hsin-hua (唐興華), aged 62, is a non-executive Director. Mr. TANG was appointed as our Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. TANG is also the chairman of the board of directors of Jushi USA Fiberglass Co., Ltd. and the supervisor of China Jushi. Mr. TANG has also been a director of Hengshi Fiberglass since January 2004. From 1996 to 2003, Mr. TANG had acted as the chief executive officer of United Suntech Craft Inc. From 1995 to 2010, Mr. TANG had also acted as the chief executive officer of Gibson Enterprises Inc. Mr. TANG obtained a bachelor degree in urban planning from National Chengchi University (台灣政治大學) in Taipei, Taiwan, in June 1976.

Mr. WANG Yuan (王源), aged 37, is a non-executive Director. Mr. WANG was appointed as our Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. WANG has also been the chairman of the board of directors of Zhenshi Group's Indonesian branch since 2011 and the vice president of Zhenshi since 2010. From May 2001 to August 2003, Mr. WANG had worked as the project manager at Beijing Hollyhigh International Capital Consulting Co., Ltd. (北京東方高聖投資顧問有限公司). From September 2003 to August 2007, Mr. WANG had acted as deputy minister in the strategic investment department of Jushi Group. From 2007 to 2009, Mr. WANG had acted as the assistant to the president of Zhenshi. Mr. WANG obtained a bachelor degree in economics from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in Nanjing, China, in June 2000 and a master degree in management from Beijing University of International Business and Economics (對外經濟貿易大學), in Beijing, China, in June 2007.

Executive Director

Mr. ZHOU Tingcai (周廷才), aged 49, is an executive director and the general manager. Mr. ZHOU was appointed as our Director in May 2015 and the general manager in November 2014 and is primarily responsible for overall operations of the Group. Mr. ZHOU joined the Group in November 2014 and has been acting as the general manager ever since. From September 1989 to October 1997, Mr. ZHOU had worked as the workshop manager, project manager and project engineer of Lanzhou Plate Glass Factory (蘭州平板玻璃廠). From October 1997 to February 2008, Mr. ZHOU had received training and held different positions in various departments of Saint-Gobain China. From February 2008 to July 2008, Mr. ZHOU had acted as the deputy general manager of Jushi Group Chengdu Branch (巨石集團成都公司). From August 2008 to November 2014, Mr. ZHOU had acted as deputy general manager and general manager of Kunshan Huafeng Composite Material Co., Ltd (昆山華風複合材料有限公司). Mr. ZHOU joined Kunshan Huafeng Wind-Power Engineering Co., Ltd (昆山華風風電科技有限公司) as deputy general manager and general manager responsible for developing and managing industrial chain and had acted as general manager from April 2010 to November 2014. Mr. ZHOU

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obtained a bachelor degree in material engineer from Wuhan University of Technology (武漢工業大學), Wuhan, China, in June 1989.

Ms. HUANG Junjun (黃鈞筠), aged 35, is an executive Director and the deputy general manager. Ms. HUANG was appointed as our Director in May 2015. She had been a deputy manager of Hengshi Fiberglass since 2008 with primary responsibilities in sales and foreign trade, and has become a deputy general manager since January 2014. From July 2003 to October 2004, Ms. HUANG had worked as a president office staff of Jushi Group. From 2004 to 2006, Ms. HUANG had been an executive in the general manager's office of Jucheng Real Estate Development Co., Ltd (巨成置業有限公司). From March 2006 to August 2008, Ms. HUANG had worked as a marketing specialist in Jushi Group. From 2010 to 2013, in addition to her responsibilities at Hengshi Fiberglass, Ms. HUANG had also been the assistant to the general manager in Zhejiang Meishi New Materials Company Ltd. (浙江美石新材料有限公司). She obtained a bachelor's degree in finance from Hubei University (湖北大學), Wuhan, China, in June 2003.

Independent non-executive Directors

Mr. FANG Xianbai (方賢柏), aged 77, is an independent non-executive Director. Mr. FANG was appointed as our Director in May 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. FANG has been an evaluation expert for technology innovation award granted by China Building Materials Industrial Association (中國建築材料工業協會) and China Jiye Jiancai Labour Union National Committee (中國機冷建材工會全國委員會). From 1964 to 1998, Mr. FANG had worked in Nanjing Fiberglass R&D Institute (南京玻璃纖維研究設計院) as vice chief engineer and senior engineer (professor level). Mr. FANG has enjoyed special government allowance from the State Council since October 1992. Mr. FANG was awarded as senior engineer by State Construction Materials Industry Administration (國家建築材料工業局) in December 1987. From January 1995 to December 2009, Mr. FANG had worked in Jushi Group as chief engineer and senior engineer (professor level) responsible for the management, development and innovation of fiberglass technology. Mr. FANG obtained a diploma in Shenyang Construction Specialised Institution (沈陽建築工業專科學校) in Shenyang, China, in July 1961.

Mr. CHEN Zhijie (陳志傑), aged 44, is an independent non-executive director. Mr. CHEN was appointed as our Director in May 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. CHEN has been the general manager of Huatai Ruilian Fund Management Company (華泰瑞聯基金管理公司), a subsidiary of Huatai United Securities Company Ltd. (華泰聯合證券有限公司), and the managing partner of Huatai Ruilian M&A Fund (華泰瑞聯併購基金) since April 2014. Mr. CHEN has also acted as the director of Sunbird Yacht Co., Ltd (太陽鳥遊艇股份公司), a company listed on the Shenzhen Stock Exchange since September 2014. From October 2004 to April 2014, Mr. CHEN had acted as the vice general manager, general manager of the department of merger and acquisition and private equity and the managing director of the investment banking department at Huatai United Securities Company Ltd. Mr. CHEN obtained an MBA degree from Tsinghua University (清華大學) in Beijing, China, in June 2001.

Mr. PAN Fei (潘飛), aged 59, is an independent non-executive director. Mr. PAN was appointed as our Director in May 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. PAN has been the professor of accounting and deputy dean of the school of accountancy in Shanghai University of Finance and Economics (上海財經大學) since July 2000. Mr. PAN has been an independent director of Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司), a company listed on the Shanghai Stock Exchange, since July 2009, an independent director of Shanghai M&G Stationery Inc. (上海晨光文具股份有限公司), a company listed on the Shanghai Stock Exchange, since June 2014 and an independent director of Universal Scientific Industrial (Shanghai) Co., Ltd. (環旭電子股份有限公司), a company listed on the Shanghai Stock Exchange, since March 2011. Mr. PAN was an independent director of Shanghai Bailian Group Co., Ltd. (上海百聯集團股份有限公司), a company listed on the Shanghai Stock Exchange, from June 2010 to June 2015, an independent director of Shanghai Wanye Enterprises Co., Ltd. (上海萬業企業股份有限公司), a company listed on the Shanghai Stock Exchange, from May 2012 to May 2015 and an independent non-executive director in Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (stock code: 1349), a company listed on the Stock Exchange, from June 2003 to May 2014. From March 1983 to June 1995 and from July 1995 to June 2000, Mr. PAN had been a lecturer of accounting and an associate professor of accounting in Shanghai University of

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Finance and Economics. Mr. PAN obtained a bachelor degree, a master degree and a doctor degree in accounting from Shanghai University of Finance and Economics in January 1983, March 1991 and July 1998 respectively, in Shanghai, China.

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Mr. RAO Chaofu (饒朝富), aged 41, is the chief financial officer of the Group. Mr. RAO was appointed as the chief financial officer in May 2015 and is responsible for financial affairs of the Group. Mr. RAO has been the vice minister of the accounting department of Zhenshi and, among other things, has been responsible for overseeing financial affairs relating to our Group since 2010. From 1997 to 2006, Mr. RAO had worked as an accountant and the financial manager of Tongxiang Gaoke Electricity Co., Ltd (桐鄉高科電子有限公司), a former subsidiary of Zhenshi. From 2006 to 2008, Mr. RAO had acted as the financial manager of Shenzhen Yuanshi Rubber Electricity Co., Ltd (深圳源石塑膠電子有限公司), a former subsidiary of Zhenshi. From 2008 to 2010, Mr. RAO had acted as the group accountant of Zhenshi. Mr. RAO obtained a bachelor degree in accounting from Hangzhou Dianzi Industrial College (杭州電子工業學院), Hangzhou, China, in July 1997.

Mr. LI Hui (李輝), aged 36, is the deputy general manager. Mr. LI was appointed as the deputy general manager in January 2009 and is primarily responsible for comprehensive administrative management and quality control. Mr. LI joined the Group in January 2007. From 1998 to 2002, Mr. LI had worked as depositary director in Huludao Branch of the Bank of China, Liaoning, China. From 2002 to 2004, Mr. LI had worked as the manager of the customer relationship department in Wuxi Union Pay Card Service Company (無錫市銀聯卡專業服務公司). From 2007 to 2009, Mr. LI had acted as the assistant to the general manager of Hengshi Fiberglass. Mr. LI obtained a bachelor's degree in economic law (self-study) in Liaoning University (遼寧大學), Shenyang, China, in December 1999.

Save as disclosed herein, no Directors or members of our senior management held any directorship positions in any other listed companies within the three years immediately preceding the date of this prospectus.

COMPANY SECRETARY

Mr. YIN Hang (尹航), was appointed as a joint company secretary of the Company on 7 May 2015. From March 2009 to December 2013, Mr. YIN had acted as the secretary to the chairman of Jushi Group. From January 2011 to December 2012, Mr. YIN had also acted as an investment strategy commissioner of Jushi Group. From January 2014 to April 2015, Mr. YIN had acted as the deputy director of the development strategy department in Zhenshi. Mr. YIN obtained a bachelor degree in marketing from Washington State University, Washington, United States, in July 2008.

Ms. WONG Sau Ping is a joint company secretary of the Company. Ms. WONG is a senior manager of the Listing Services Department of TMF Hong Kong Limited (a fellow subsidiary of KCS Hong Kong Limited). She has over 14 years of experience in the company secretarial field. Ms. WONG had worked for one of the four largest international audit firms, where she served large and well-known companies listed on the Stock Exchange. Ms. WONG holds a bachelor degree in business administration and a master degree in professional accounting and information system. She is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administration in the United Kingdom.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules to advise us on the following matters in accordance with Rule 3A.23 of the Listing Rules:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Group deviate from any forecast, estimate or other information in this prospectus; and

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- (d) where the Stock Exchange makes an inquiry of us of unusual movements in the price or trading volume of our listed securities or any other matters in accordance with Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results as required under Rule 13.46 of the Listing Rules for the first full financial year commencing after the Listing Date and such appointment may be extended by mutual agreement.

BOARD COMMITTEES

The Board delegates certain responsibilities to various committees. In accordance with the corporate governance practice prescribed in the Listing Rules, the Company has formed three Board committees, namely the audit committee, the remuneration committee and the nomination committee.

Audit Committee

The Company established the audit committee of the Company on 7 May 2015, with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The audit committee of the Company consists of two independent non-executive Directors, being Mr. FANG Xianbai and Mr. PAN Fei and one non-executive Director, being Mr. WANG Yuan. Mr. FANG Xianbai has been appointed as the chairman of the audit committee of the Company, and is the independent non-executive Director with the appropriate professional qualifications. The primary duties of the audit committee of the Company are to provide the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by the Directors.

Remuneration Committee

The Company established the remuneration committee of the Company on 7 May 2015, with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The remuneration committee of the Company consists of two independent non-executive Directors, being Mr. FANG Xianbai and Mr. PAN Fei and one non-executive Director, being Mr. ZHANG Jiankan. Mr. FANG Xianbai, our independent non-executive Director, has been appointed as the chairman of the remuneration committee of the Company. The primary duties of the remuneration committee of the Company include (but without limitation): (i) making recommendations to the Directors on our policy and structure for remunerations of all the Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; and (ii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time.

Nomination Committee

The Company established the nomination committee of the Company on 7 May 2015, with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The nomination committee of the Company consists of two independent non-executive Directors, being Mr. FANG Xianbai and Mr. CHEN Zhijie and one non-executive Director, being Mr. ZHANG Yuqiang. Mr. ZHANG Yuqiang has been appointed as the chairman of the nomination committee of the Company. The primary duties of the nomination committee of the Company are to make recommendations to the Directors on all new appointments of the Directors and senior management, interviewing nominees, to take up references and to consider related matters.

DIRECTORS' AND SENIOR MANAGEMENT'S COMPENSATION

The Directors and senior management receive compensation from the Group in the form of fees, salaries, contributions to pension schemes and allowances and benefits in kind. The remuneration (including fees, salaries,

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contributions to pension schemes, share-based compensation expenses, discretionary bonuses, housing and other allowance allowances and other benefits in kind) we paid to the Directors in respect of the three years ended 31 December 2012, 2013 and 2014 was nil. The remuneration we paid to Directors in respect of the six months ended 30 June 2015 was RMB727,000. Further information on the remuneration of each Director during the Track Record Period is set out in Note 13 to the accountants' reports as set out in Appendix IA and IB to this prospectus.

None of the five highest paid individuals of our Group was a Director of the Group during the years ended 31 December 2012, 2013 and 2014. The aggregate remuneration (including salaries and other benefits, performance related bonus and retirement benefit schemes contribution) paid to our Group's five highest paid individuals for the three years ended 31 December 2012, 2013 and 2014 were RMB1.2 million, RMB1.1 million and RMB1.2 million, respectively. Three of the five highest paid individuals were directors during the six months ended 30 June 2015. The aggregate remuneration (including salaries and other benefits, performance related bonus and retirement benefit schemes contribution) paid to our Group's two highest paid individuals who were not directors for the six months ended 30 June 2015 was RMB0.5 million.

Under the arrangements currently in force, the aggregate amount of remuneration (excluding any discretionary bonus which may be paid) payable to the Directors for the year ending 31 December 2015 is estimated to be approximately RMB2.2 million.

During the Track Record Period, no remuneration was paid to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group. No compensation was paid to, or receivable by, the Directors or past Directors or the five highest paid individuals during the Track Record Period for the loss of office as director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

Save as disclosed above, no other payments have been paid or are payable in respect of the Track Record Period to the Directors by the Group. None of the Directors waived any emoluments during the Track Record Period.

Our Articles provide that the ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting and shall (unless otherwise directed by the resolution by which it is voted) be divided amongst the Board in such proportions and in such manner as the Board may agree. The Board of Directors will also review and determine the remuneration and compensation packages of the senior management which, following the Listing, will receive recommendation from the remuneration committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of the senior management and performance of the Group.

WAIVER FROM THE STOCK EXCHANGE

Management Presence

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details of the waiver, please see the section headed "Waivers from Strict Compliance with the Listing Rules — Management Presence" in this prospectus.

Joint Company Secretary

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rules 3.28 and 8.17 of the Listing Rules in connection with Mr. YIN's appointment as our company secretary. For details of the waiver, please see the section headed "Waivers from Strict Compliance with the Listing Rules — Joint Company Secretary" in this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as of the date of this prospectus and immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following person will have an interest or a short position in the Shares or underlying Shares of the Company which will be required to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of our subsidiaries:

Name of shareholder	Nature of interest ⁽¹⁾	Shares held as at the date of this prospectus		Immediately following the completion of the Global Offering ⁽²⁾	
		Number of Shares held	Approximate percentage of interest in the Company	Number of Shares held	Approximate percentage of interest in the Company
Mr. Zhang Yuqiang ⁽³⁾	Interest of controlled corporations	329,602,500	43.95%	329,602,500	32.96%
Mr. Zhang Jiankan ⁽⁴⁾	Interest of controlled corporations	120,397,500	16.05%	120,397,500	12.04%
Mr. Tang Hsin-hua ⁽⁵⁾	Interest of controlled corporations	225,000,000	30.0%	225,000,000	22.50%
Mr. Fang Yan Zau Alexander ⁽⁶⁾	Interest of controlled corporations	75,000,000	10.0%	75,000,000	7.50%
Huachen Investment Limited ⁽⁷⁾	Beneficial owner	329,602,500	43.95%	329,602,500	32.96%
Huakai Investment Limited ⁽⁸⁾	Beneficial owner	120,397,500	16.05%	120,397,500	12.04%
Soar City Investments Limited ⁽⁹⁾	Interest of controlled corporations	225,000,000	30.0%	225,000,000	22.50%
Trade Power Investments Limited ⁽¹⁰⁾	Beneficial owner	225,000,000	30.0%	225,000,000	22.50%
Top Way Alliance Limited ⁽¹¹⁾	Interest of controlled corporations	75,000,000	10.0%	75,000,000	7.50%
Joyfar Limited ⁽¹²⁾	Beneficial owner	75,000,000	10.0%	75,000,000	7.50%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 1,000,000,000 Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).
- (3) Mr. Zhang Yuqiang, father of Mr. Zhang Jiankan, directly holds 95.95% of the issued share capital of Huachen Investment Limited and is deemed to be interested in the 329,602,500 Shares held by Huachen Investment Limited prior to the completion of the Global Offering, representing 43.95% of the Company's issued share capital immediately prior to the Global Offering and 32.96% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (4) Mr. Zhang Jiankan, son of Mr. Zhang Yuqiang, directly holds 100.0% of the issued share capital of Huakai Investment Ltd and is deemed to be interested in the 120,397,500 Shares held by Huakai Investment Ltd prior to the completion of the Global Offering, representing 16.05% of the Company's issued share capital immediately prior to the Global Offering and 12.04% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (5) Mr. Tang Hsin-hua indirectly holds (through his 100.0% direct interest in Soar City Investments Limited) 100% of the issued share capital of Trade Power Investments Limited and is deemed to be interested in the 225,000,000 Shares held by Trade Power Investments Limited prior to the completion of the Global Offering, representing 30% of the Company's issued share capital immediately prior to the Global Offering and 22.50% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (6) Mr. Fang Yan Zau Alexander indirectly holds (through his 100.0% direct interest in Top Way Alliance Limited) 100% of the issued share capital of Joyfar Limited and is deemed to be interested in the 75,000,000 Shares held by Joyfar Limited prior to the completion

SUBSTANTIAL SHAREHOLDERS

- of the Global Offering, representing 10% of the Company's issued share capital immediately prior to the Global Offering and 7.50% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
- (7) Huachen Investment Limited directly holds 329,602,500 Shares of the Company prior to the Global Offering, representing 43.95% of the Company's issued share capital immediately prior to the Global Offering and 32.96% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
 - (8) Huakai Investment Ltd directly holds 120,397,500 Share of the Company prior to the Global Offering, representing 16.05% of the Company's issued share capital immediately prior to the Global Offering and 12.04% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
 - (9) Soar City Investments Limited directly holds 100.0% of the issued share capital of Trade Power Investments Limited and is deemed to be interested in the 225,000,000 Shares held by Trade Power Investments Limited prior to the completion of the Global Offering, representing 30% of the Company's issued share capital immediately prior to the Global Offering and 22.50% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
 - (10) Trade Power Investments Limited directly holds 225,000,000 Share of the Company prior to the Global Offering, representing 30% of the Company's issued share capital immediately prior to the Global Offering and 22.50% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
 - (11) Top Way Alliance Limited directly holds 100.0% of the issued share capital of Joyfar Limited and is deemed to be interested in the 75,000,000 Shares held by Joyfar Limited prior to the completion of the Global Offering, representing 10% of the Company's issued share capital immediately prior to the Global Offering and 7.50% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).
 - (12) Joyfar Limited directly holds 75,000,000 Share of the Company prior to the Global Offering, representing 10% of the Company's issued share capital immediately prior to the Global Offering and 7.50% of the Company's issued share capital immediately after the Global Offering (assuming the Over-allotment Option is not exercised).

Other than as disclosed above, the substantial shareholders are not related to one another. Save as disclosed above, the Directors are not aware of any person who will, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of our subsidiaries.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised share capital of the Company as of the Latest Practicable Date and the issued share capital of the Company (including Shares in issue and to be issued as fully paid or credited as fully paid) immediately following the completion of the Global Offering:

	<u>US\$</u>	<u>Percentage</u>
<i>Authorised share capital as of the Latest Practicable Date:</i>		
2,000,000,000 Shares of US\$0.001 each	2,000,000	100.00%
<i>Authorised share capital immediately prior to the completion of the Global Offering:</i>		
<u>2,000,000,000</u> Shares of US\$0.001 each	<u>2,000,000</u>	<u>100.00%</u>
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering:</i>		
750,000,000 Shares in issue as of the date of this prospectus	750,000	75%
<u>250,000,000</u> Shares to be issued pursuant to the Global Offering	<u>250,000</u>	<u>25%</u>
<u>1,000,000,000</u> Total	<u>1,000,000</u>	<u>100.00%</u>

ASSUMPTIONS

The above tables assume that the Global Offering becomes unconditional and the Shares are issued pursuant to the Global Offering. The above does not take into account any Shares to be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares will be ordinary shares in the share capital of the Company and will rank equally in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becomes unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate nominal value of Shares allotted or agreed to be allotted by the Directors other than pursuant to:

- (a) a rights issue;
- (b) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles;
- (c) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of:
 - (i) 20% of the total nominal value of the share capital of the Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option); and
 - (ii) the total nominal value of the share capital of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to in the subsection headed “— General Mandate to Repurchase Shares” below.

SHARE CAPITAL

This general mandate to issue Shares will expire:

- (1) at the conclusion of our next annual general meeting; or
- (2) at the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (3) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the section headed “Appendix V — Statutory and General Information — A. Further Information about the Company and its Subsidiaries — 6. Repurchase of Our Own Securities” to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becomes unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total number of not more than 10% of the total number of shares of the Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This general mandate relates only to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed “Appendix V — Statutory and General Information — A. Further Information about the Company and its Subsidiaries — 6. Repurchase of Our Own Securities” to this prospectus.

This general mandate to repurchase Shares will expire:

- (i) at the conclusion of our next annual general meeting; or
- (ii) at the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, please refer to the section headed “Appendix V — Statutory and General Information — A. Further Information about the Company and its Subsidiaries — Resolutions in writing of the Shareholders of the Company passed on 7 May 2015 and 4 December 2015, respectively” to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Upon completion of the Global Offering, the Company will have only one class of Shares, namely ordinary shares, each of which ranks *pari passu* with the other Shares.

Pursuant to the Cayman Companies Law and the terms of our Articles, the Company may from time to time by ordinary resolution of Shareholders (i) increase its capital; (ii) consolidate and divide its capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, the Company may, subject to the Cayman Companies Law, reduce or redeem its share capital or capital redemption reserve by special resolution of Shareholders.

SHARE CAPITAL

For more details, please refer to the section headed “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law — Articles of Association — Alteration of capital” to this prospectus.

Pursuant to the Cayman Companies Law and the terms of our Articles, all or any of the special rights attached to the Share or any class of Shares may be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of that class. For more details, please refer to the section headed “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law — Articles of Association — Variation of rights of existing shares or classes of shares” to this prospectus.

OUR CORNERSTONE INVESTOR

THE CORNERSTONE PLACING

We have entered into a cornerstone investment agreement with China Building Material Holdings Co., Limited (“**CBMH**”), a wholly owned subsidiary of China National Building Material Company Limited (“**CNBM**”), pursuant to which CNBM has agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 2,000 Shares) that may be purchased for an aggregate amount of approximately US\$10.0 million (equivalent to HK\$77.5 million) (the “Cornerstone Placing”). Assuming an Offer Price of HK\$1.80 (being the low end of the indicative Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by CNBM would be 43,054,000, representing approximately (i) 4.15% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 4.31% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$2.20 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by CNBM would be 35,226,000, representing approximately (i) 3.40% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 3.52% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$2.6 (being the high end of the indicative Offer Price range stated in this prospectus), the total number of Shares to be subscribed for by CNBM would be 29,806,000, representing approximately (i) 2.87% of the Shares in issue upon the completion of the Global Offering, assuming that the Over-allotment Option is fully exercised; or (ii) 2.98% of the Shares in issue upon completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

The table below sets out the total number of Shares CNBM would subscribe for in aggregate and the respective approximate percentages it represents of (i) the International Offer Shares; (ii) the Offer Shares; (iii) the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised); and (iv) the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is exercised in full):

	Total number of Shares to be subscribed for by CNBM (rounded down to the nearest whole board lot of 2,000 Shares)	Approximate percentages of the International Offer Shares	Approximate percentages of the Offer Shares	Approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised)	Approximate percentages of the Shares in issue immediately following completion of the Global Offering (assuming that the Over-allotment Option is exercised in full)
Assuming an Offer Price of HK\$1.80 (being the low end of the indicative Offer Price range stated in this prospectus)	43,054,000	19.14%	17.22%	4.31%	4.15%
Assuming an Offer Price of HK\$2.20 (being the mid-point of the indicative Offer Price range stated in this prospectus)	35,226,000	15.66%	14.09%	3.52%	3.40%
Assuming an Offer Price of HK\$2.60 (being the high end of the indicative Offer Price range stated in this prospectus)	29,806,000	13.25%	11.92%	2.98%	2.87%

CNBM is independent from our Company, our connected persons and their respective associates and not an existing shareholder of our Company, please see section headed “Business — Purchases of Fiberglass from China Jushi — Our Relationship with China National Building Materials Company Limited” in this prospectus. Details of the actual number of Offer Shares to be allocated to CNBM will be disclosed in the allotment results announcement to be issued by our Company on or around 18 December 2015.

OUR CORNERSTONE INVESTOR

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by CNBM will rank pari passu in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company. CNBM will not subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone investment agreement. Upon completion of the Global Offering, CNBM will not have any board representation in our Company, nor will CNBM become our substantial shareholder. CNBM does not have any preferential rights under the cornerstone investment agreement compared with other public Shareholders. The number of Offer Shares to be subscribed for by CNBM will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in the section headed “Structure of the Global Offering — The Hong Kong Public Offer”.

OUR CORNERSTONE INVESTOR

We have entered into a cornerstone investment agreement with CNBM, through CBMH which is its wholly owned subsidiary, in respect of the Cornerstone Placing. The information about CNBM set forth below has been provided by CNBM in connection with the Cornerstone Placing:

CNBM, through CBMH which is its wholly owned subsidiary, has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 2,000 Shares) which may be purchased with an aggregate amount of US\$10.0 million (equivalent to HK\$77.5 million and exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) at the Offer Price. Assuming an Offer Price of HK\$1.80, being the low end of the indicative Offer Price range set out in this prospectus, the total number of Shares that CNBM would subscribe for would be 43,054,000, representing approximately 4.31% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$2.20, being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Shares that CNBM would subscribe for would be 35,226,000, representing approximately 3.52% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$2.60, being the high end of the indicative Offer Price range set out in this prospectus, the total number of Shares that CNBM would subscribe for would be 29,806,000, representing approximately 2.98% of the Shares in issue immediately following completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Incorporated in Hong Kong, CBMH is an investment holding company wholly owned by CNBM. CNBM is a large building materials state-owned enterprise, which is the core enterprise of China National Building Material Group Corporation. CNBM was founded as a joint stock limited company on 28 March 2005, and has been listed on Hong Kong Stock Exchange since 23 March 2006 (stock code: 3323).

CNBM is mainly engaged in cement, lightweight building materials, glass fiber, composite materials and engineering services businesses.

After nine years of development since listing, CNBM has explored a development path of “capital operation, consolidation and restructuring, management integration, and integrated innovation”. The scale of the core business of CNBM has grown rapidly and the earning capacity has improved continuously. By the end of 2014, the annual cement capacity of CNBM reached 400 million tons, commercial concrete capacity reached 413 million cubic metres, gypsum board capacity is 1.78 billion square metres, and fiberglass capacity is one million tonnes. CNBM has become the largest cement, commercial concrete and gypsum board producer in the world, a world leading glass fiber producer and the largest rotor blade producer in the PRC.

CONDITIONS PRECEDENT

The subscription obligation of CNBM is conditional upon, among others, the following conditions precedent:

- (1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional and not having been terminated; and
- (2) the Listing Committee having granted the listing of, and permission to deal in, the Shares and such approval not having been revoked.

OUR CORNERSTONE INVESTOR

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTOR

CNBM has undertaken to our Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of (as defined in the cornerstone investment agreement) any Shares subscribed for by it pursuant to the cornerstone investment agreement (or any interest in any company or entity holding any Shares), or agree or contract to or publicly announce any intention to enter into any such transaction, other than in certain limited circumstances such as transfers to any wholly-owned subsidiary, (provided that, among other things, such wholly-owned subsidiary undertakes in writing to be, and CNBM undertakes in writing prior to such transfer to procure such subsidiary to be, bound by the CNBM's obligations under the relevant cornerstone investment agreement).

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements as at and for each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2015 and the accompanying notes, all included in the Accountants' Report as set out in Appendix I to this prospectus. We have prepared our financial information in accordance with IFRS.

The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include, without limitation, those discussed in the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades. According to the DNV GL Report, we were the third largest manufacturer and supplier of fiberglass fabrics used in wind turbine blades globally based on sales volume by tonnage in 2014 and the only PRC-based company among the top three global players. According to the DNV GL Report, our sales volume accounted for approximately 13.7% of the total global market sales of fiberglass fabrics used in wind turbine blades in 2014. In 2014 we had the largest exporting volume of fiberglass fabrics used in wind turbine blades by tonnage among all PRC-based companies, according to the DNV GL Report.

We derive most of our revenue from selling fiberglass fabrics to customers in the wind turbine blade sector. Our revenue generated from sales to the wind turbine blade sector, which is the aggregate of sales of products specified in contracts for wind turbine blade sector, was RMB331.1 million, RMB301.7 million, RMB563.9 million, RMB237.8 million and RMB432.7 million in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively, accounting for 75.1%, 74.4%, 83.1%, 81.2% and 86.5% of total revenue during the same periods, respectively. We report our revenue in five types of fiberglass fabrics: multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. Among these products, multi-axial fabrics and uni-directional fabrics are our key products, most of which are sold to customers in the wind turbine blade sector, and the remaining products are mainly sold to customers in a variety of other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods.

We achieved an overall significant growth in revenue and net profit during the Track Record Period. Our revenue was RMB441.0 million, RMB405.4 million and RMB678.6 million in 2012, 2013 and 2014, respectively, representing a CAGR of 24.1% from 2012 to 2014. Our revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015. Our net profit increased from RMB71.6 million in 2012 to RMB78.1 million in 2013 and further to RMB131.7 million in 2014, representing a CAGR of 35.6% from 2012 to 2014. Our net profit increased by RMB94.5 million, or 266.9%, from RMB35.4 million in the six months ended 30 June 2014 to RMB129.9 million in the six months ended 30 June 2015.

BASIS OF PRESENTATION

We were incorporated in the Cayman Islands on 23 February 2015 and, as part of the Reorganisation, became the holding company of our Group with our business conducted through our subsidiaries in the PRC. The companies now comprising our Group were under the common control of our Controlling Shareholders before and after the Reorganisation. Our financial information has been prepared using merger accounting principles as if the Reorganisation had been completed at the beginning of the Track Record Period.

Our consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the Track Record Period include the results of operations and cash flows of the companies now comprising our Group as if the current group structure had been in existence and remained unchanged throughout the Track Record Period or since their respective dates of incorporation or establishment, whichever period is shorter. Our consolidated statements of financial position as at 31 December 2012, 2013 and 2014 and 30 June 2015 have been prepared to present the assets and liabilities the companies now comprising our

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Group as if the current group structure had been in existence as at the respective dates, taking into account their respective dates of incorporation or establishment.

Our financial information has been prepared in accordance with IFRS on the historical cost basis, except for certain financial instruments which are measured at fair value. We present our financial information in Renminbi. All material intra-group transactions and balances have been eliminated on consolidation.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that we believe are most significant to the preparation of our consolidated financial information. Some of our critical accounting policies involve subjective assumptions and estimates, as well as complex judgments by our management relating to accounting items. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Revenue Recognition

We measure our revenue at the fair value of the consideration received or receivable, which represents amounts receivable for goods sold in our normal course of business, net of discounts, returns and sales related taxes. We recognise revenue from our sale of fiberglass fabrics when our fiberglass fabrics are delivered and titles have passed, at which time all the following conditions are satisfied:

- we have transferred to the buyer the significant risks and rewards of ownership of the relevant fiberglass fabrics;
- we retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the fiberglass fabrics sold;
- the amount of revenue can be measured reliably;
- the economic benefits associated with the transaction will probably flow to us; and
- we can measure the costs incurred or to be incurred in respect of the transaction reliably.

We also recognise interest income from a financial asset when the economic benefits will probably flow to us and we can measure the amount of income reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to the net carrying amount of that asset on initial recognition.

Property, Plant and Equipment

We state property, plant and equipment, other than construction in progress, at cost less subsequent accumulated depreciation and impairment losses, if any. Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, after taking into account their estimated residual values, by using the straight-line method. We review the estimated useful lives, residual values and depreciation method at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Construction in progress is stated at cost less any recognised impairment loss, if any. We classify such properties to the appropriate categories of property, plant and equipment when completed and ready for intended use. We start the depreciation of these assets on the same basis as other property assets, when the assets are ready for their intended use.

We derecognise an item of property, plant and equipment upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. We determine any gain or loss arising on the

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disposal or retirement of an item of property, plant and equipment as the difference between the sales proceeds and the carrying amount of the asset and recognise such amount in profit or loss.

In applying the accounting policy on property, plant and equipment with respect to depreciation and amortisation, we estimate the useful lives of the various categories of property, plant and equipment according to our experience and also by reference to the relevant industrial norm. If the actual useful lives of the relevant property, plant and equipment are less than the original estimated useful lives due to commercial or technological changes, such difference will impact the depreciation charge for the remaining useful lives. As at 31 December 2012, 2013 and 2014 and 30 June 2015, the carrying amount of our property, plant and equipment was RMB356.5 million, RMB327.4 million, RMB442.9 million and RMB490.6 million, respectively.

Allowance for Trade Receivables

Our trade receivables are carried at amortised cost by using the effective interest method, less any identified impairment losses. We recognise allowances for estimated irrecoverable amounts in profit or loss when there is objective evidence that the asset is impaired. We make allowances for bad and doubtful debts where events or changes in circumstances indicate that the balances may not be collectible. We measure the amount of the impairment loss as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not incurred) discounted at the original effective interest rate of the financial asset. Where the actual future cash flows are less than expected, a material impairment loss may arise. We also make allowance for receivables based on our assessment of collectability and the relevant debtors' creditworthiness. If the actual future cash flows were less than expected, additional allowance may be required.

As at 31 December 2012, 2013 and 2014 and 30 June 2015, the carrying amount of our trade receivables was RMB127.7 million (net of allowance for doubtful debt of RMB12.5 million), RMB137.6 million (net of allowance for doubtful debt of RMB10.8 million), RMB178.4 million (net of allowance for doubtful debt of RMB10.1 million) and RMB306.7 million (net allowance for doubtful debt of RMB17.5 million), respectively. Our allowance for doubtful debts during the Track Record Period mainly related to overdue payments from certain customers which experienced financial difficulties.

Inventories

We state inventories at the lower of cost and net realisable value. We calculate cost by using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. When making estimates of net realisable value of inventories, we take into consideration the use of inventories held on hand and other information available to form the underlying assumptions, including the inventories' market prices and our historical operating costs. The actual selling price, the costs of completion and the costs necessary to make the sale may vary based on the changes in market conditions, product saleability and the actual use of the inventories, resulting in changes in allowance for write-down of inventories. We assess periodically if any impairment should be made to our inventories. The identification of impairment of inventories requires our management's judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and impairment loss in the year in which such estimate has been changed. For example, we recorded allowance for write-down of inventories of RMB9.1 million, RMB10.2 million, RMB8.9 million and RMB8.9 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The decrease in the allowance for write-down of inventories as at 31 December 2014 was primarily because we adjusted upwards the net realisable value of inventories of fiberglass fabrics that were used in industries other than the wind turbine blade sector when the selling prices of fiberglass fabrics used in other industries increased in 2014.

When inventories are sold, the carrying amount of those inventories is recognised as cost of sales in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as cost of sales in the period the write-down or loss occurs. The

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amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as cost of sales in the period in which the reversal occurs.

As at 31 December 2012, 2013 and 2014 and 30 June 2015, the carrying amount of our inventories was RMB96.5 million (net of allowance for write-down of RMB9.1 million), RMB72.1 million (net of allowance for write-down of RMB10.2 million), RMB82.7 million (net of allowance for write-down of RMB8.9 million) and RMB98.3 million (net of allowance for write-down of RMB8.9 million), respectively. The write-down of our inventories primarily related to (i) a batch of our products returned by a customer in 2012, which were intended to be sold to customers in industries other than the wind turbine blade sector, and (ii) other inventories held for over one year. We expect to complete the re-sale of the returned products by the end of 2016.

Financial Instruments

We recognise financial assets and financial liabilities in the consolidated statements of financial position when we become a party to the contractual provisions of the relevant financial instruments. We initially measure financial assets and financial liabilities at fair value and then add or deduct transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. We recognise transaction costs directly attributable to acquisition of the financial assets or financial liabilities at FVTPL immediately in profit or loss.

We state financial assets and liabilities at FVTPL, with any gains or losses arising from re-measurement recognised in profit or loss in the period in which they arise. We also measure some of the assets and liabilities at fair value for financial reporting purposes. Our Board has set up a valuation team led by our chief financial officer to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of an asset or a liability, we use market-observable data to the extent it is available. If such data is not available, we will engage qualified third-party valuers to perform the valuation. Our chief financial officer works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model and reports the findings to our Board at the end of each reporting period to explain the cause of fluctuations in the fair value of our assets and liabilities.

During the Track Record Period, our financial assets and liabilities at FVTPL related to the outstanding amount of our foreign currency forward contracts. As at 31 December 2013, we recorded foreign currency forward contracts as financial assets at FVTPL of RMB5.4 million. As at 31 December 2014, we recorded foreign currency forward contracts as financial liabilities at FVTPL of RMB15.2 million. As at 30 June 2015, we recorded foreign currency forward contracts as financial liabilities at FVTPL of RMB5.5 million. For details of our foreign currency forward contracts, see “Business — Customers, Sales and Marketing — Foreign Currency Forward Contracts” and “—Factors Affecting Our Results of Operations and Financial Condition — Fluctuations in Foreign Currency Exchange Rates.”

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

We believe the most significant factors affecting our results of operations and financial condition are as follows.

Government Support, Regulatory Environment and Economic Conditions Affecting the Development of and Demand from the Global Wind Turbine Blade Sector

As our major customers operate in the global wind turbine blade sector, our business and operating results have been, and will continue to be, affected by the development of the global wind turbine blade sector. As such, factors which impact the global wind turbine blade sector can also have a significant impact on the results of our operations. These factors primarily include changes in government incentive policies, regulatory environment and general economic conditions in the major wind power markets, such as Europe, the United States and China.

Government incentive policies. Government incentive policies are one of the major drivers for increasing wind power installation targets. Although government support programmes differ from country to country, a

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number of countries have implemented incentive schemes, thus provide various types of subsidies to wind power developers. In the United States, the main incentive scheme is the PTC program, which is renewed every two years or less. When the PTC program expires with uncertainty about renewal in a given year, there could be either a significant increase or a decrease in the new installation of wind power capacity. For example, the PTC program expired in December 2012 without certainty for renewal before it was extended for one year in January 2013, resulting in 13.1 GW of newly added installed capacity in 2012 in the United States, representing the highest annual new installation figures since 2009. The newly installed capacity in the United States, however, significantly decreased to 1.1 GW in 2013, as there was a change in the qualification requirements of the renewed PTC program under which a project would be eligible for the PTC program if its construction started prior to 1 January 2014, whereas in previous years a project had to be completed by the expiration date of the PTC program in order to be eligible. As such, there was no urgency for completing projects in 2013, although numerous projects were started in 2013 in order to qualify for the PTC program. In Europe, the most significant drivers for the growth of wind power capacity are energy security and reductions in carbon emissions to address concerns over climate change, which have, and are expected to continue to have, a practical influence on wind power development. The PRC government has also introduced various policies and measures to encourage wind power generation in recent years. For example, electricity generated from wind power is subject to a 50% value-added tax refund and the PRC government announced a target of 200 GW installed wind power capacity by 2020, which implies an average annual installation of over 14 GW from 2015 to 2020. On the other hand, reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or authorised before 1 January 2015 but connected to grid after 1 January 2016, which is estimated to result in lower new installation capacity in the short term.

Regulatory environment. The investment plan of our customers in the wind turbine blade sector may be subject to the regulatory environment in which they operate, in particular, the international trading policies. For example, if any country or region imposes anti-dumping duties against fiberglass fabrics manufactured in China, the purchase costs of the relevant wind power customers in such country or region may increase, which may result in a decrease in their purchases of fiberglass fabrics from our PRC-based subsidiary.

Economic conditions. The development of the wind turbine blade sector is also dependent on sustained economic growth in the major markets. Wind power investments, which are significantly capital intensive, may increase or slow down if the global economic conditions change materially. In recent years, the global economic conditions have continued to be adversely affected by concerns over the credit crisis in Europe and heightened volatility in major stock markets. It is difficult to determine the exact impact of any prolonged global economic slowdown and financial crisis on the global economy. Any change in the economic conditions in the regions where our key customers operate could affect their investments in new wind power projects and demand for our products.

We expect factors that affect the wind turbine blade sector will continue to have an impact on our results of operations in the future. According to the DNV GL Report, the cumulative installed wind power capacity globally is estimated to grow at a CAGR of 10.8% from 2015 to 2020. Driven by the growth of the wind turbine blade sector, the volume of fiberglass fabrics used in the global wind turbine blade sector is estimated to grow at a CAGR of 7.5% from 2015 to 2020, according to the DNV GL Report. We believe that such trends could result in strong potential demand for our products, and we are well positioned to benefit from the long-term potential growth of the wind turbine blade sector. While we expect the growth in our sales volumes will moderate in 2016 and 2017 when the demand for fiberglass fabrics in the wind turbine blades industry is expected to slightly slow down, we do not expect a significant impact on our results of operation. Our major customers such as Siemens are market leaders in the wind turbine blade manufacturing industry with businesses that are more resilient to market fluctuations. The expiration of the PTC program for wind power projects in the United States at the end of 2014 shows limited impact on our business in the United States in the six months ended 30 June 2015. Our sales in the United States for the six months ended 30 June 2015 were approximately 166% higher than that in the same period in 2014, mainly attributable to the resilient growth in demand from its major customers in the United States. We expect to benefit from our new customers including LM Wind Power, which is one of the largest wind turbine blade manufacturers in the world, and ACCIONA Blades S.A., both of which became our customers in 2015. During the industry downturn in 2013, we were able to increase our market share in the sector

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of fiberglass fabrics in the wind turbine blades industry due to our leading market position and stable relationships with our major customers.

Competition

We face competition in the wind power related fiberglass fabrics industry. Changing supply and demand dynamics in a given market may affect the prices offered by us and our competitors, thus result in changes in the competition landscape of our industry. Any undersupply of fiberglass fabrics to the wind turbine blade sector during a given period of time may enable us to increase the prices of our products and achieve a higher gross profit margin. Any oversupply of fiberglass fabrics to the wind turbine blade sector during a given period of time, however, may lead to more intense competition among our competitors and us, thereby forcing us to offer more competitive prices and reduce our gross profit margin.

In addition, customers in the wind turbine blade sector usually have their own time-consuming certification processes to select suppliers of fiberglass fabrics, and each major customer in the wind turbine blade sector typically selects and qualifies two suppliers for each main type of fiberglass fabrics. Such approach creates stability for existing suppliers and yet imposes challenges for fiberglass fabrics suppliers to develop new customers. We primarily compete with our competitors on a number of factors, such as technical specifications of products, reliability in terms of product quality and delivery, price and payment terms. For details of the key purchasing criteria of the customers in the wind turbine blade sector, see “Industry Overview — Customers — Customers’ Certification Process and Purchasing Criteria.”

Production Capacity and Economies of Scale

The continued growth of our revenue and market share depends to a large extent on our ability to expand production capacity. We completed Hengshi Phase III Expansion Plan in 2015, and our annual designed production capacity in China is expected to increase from 105,436 tonnes as at 31 December 2014 to 158,835 tonnes as at 31 December 2015. We also completed the construction of production facilities in Suez, Egypt in 2015, which had an aggregate annual designed production capacity of 9,933 tonnes upon its completion in the first half of 2015. Depending on the technical requirements of products, our machines and equipment may be used to manufacture fiberglass fabrics used in various industries, giving us certain flexibility to switch production capability between fiberglass fabrics used in the wind turbine blade sector and in the other industries. However, some of our machines and equipment are not suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector, as these products have more stringent technical requirements. Our designed effective production capacity of fiberglass fabrics used in the wind turbine blade sector was 59,134 tonnes in 2014 prior to our expansion plans. In 2014, we operated at full capacity with respect to the manufacture of fiberglass fabrics used in the wind turbine blade sector when we experienced excess demand from our customers. Substantially all the additional production capacity to be achieved under our expansion plan in China and all of our production capacity in Egypt are expected to be suitable for the manufacture of fiberglass fabrics used in the wind turbine blade sector. As a result, we believe that upon the completion of these production capacity expansion plans, our annual designed production capacity of fiberglass fabrics used in the wind turbine blade sector will increased from 81,684 tonnes as at 31 December 2014 to 135,082 tonnes by the end of 2015.

In the event that demand exceeds our production capacity in the future, we aim first to ensure adequate supply to our customers in the wind turbine blade sector by assigning all available production capacity to such segment. Under such circumstances, we may have to reject orders from customers in other industries. For example, in 2014, we rejected certain orders from customers in other industries to ensure adequate supply to our customers in the wind turbine blade sector. In addition, due to our production capacity constraints, we outsourced the production of a small amount of our multi-axial fabrics used in the wind turbine blade sector to an Independent Third Party in China in 2014, and revenue generated from sales of such products accounted for less than 1.0% of our revenue in the same year. Such outsourcing of production did not have any material adverse effect on our results of operations. However, if we are required to outsource the production of a larger portion of our products to third parties, we may experience a lower gross profit margin. We expect to continue to strategically expand our production capacity and install more machines and equipment to meet our customer

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demands and increase our sales volume. We believe that such approach will also help us produce better economies of scale, reduce our unit cost of production and improve our profit margin. For more details about our expansion plans, see “Business — Production — Future Expansion Plans.”

Pricing

Product specifications and customised features are the main factors affecting our pricing for a specific product. We usually adopt a cost-plus pricing strategy to determine the prices of our fiberglass fabrics by referring to the prevailing market prices of similar products. In addition, we may also adjust prices of our products for customers on a case-by-case basis according to the industries, market position, credibility, purchase record, purchase volume and settlement terms of the relevant customers. In addition, we typically increase the original price of our fiberglass fabrics if we provide cutting services. For details of our pricing strategy, see “Business — Customers, Sales and Marketing — Pricing Strategies.”

During the Track Record Period, we entered into annual agreements with some of our customers for the supply of our products in a given year in the first quarter of the same year or at the year end of the previous year. This practice may lead to time lags before changes in the market demand affect the prices of our products. For example, some of our sales contracts generating revenue in 2014 were signed at the end of 2013 when the prospects of the wind turbine blade sector in 2014 were still unclear, whereas subsequently the demand significantly increased in 2014.

We review our pricing strategy on a regular basis to determine the appropriate selling price of our products in order to maintain our competitiveness in the markets we operate in and improve our profitability. For example, in light of the slowdown in the wind turbine blade sector in 2013, we offered our key products to customers at more competitive prices as compared to 2012 with the aim of increasing our market share. We offered similar prices to certain key customers in 2014, partially attributable to the time lag effects of our pricing strategy and also in order to achieve a significant increase in sales volume and rapidly grow our scale when the wind turbine blade sector recovered. We believe that our large scale and operational efficiency have enabled and will continue to enable us to offer competitive prices, while at the same time, our continuous endeavours to focus on providing high-quality fiberglass fabrics used in large-capacity wind turbines are expected to help us enjoy stronger pricing power in the future.

Product Mix

Our results of operations have been and will continue to be affected by our product mix. The different types of our products vary significantly in terms of specifications and technology and therefore have different costs, selling prices and gross profit margins. In general, our multi-axial fabrics and uni-directional fabrics, which are mainly supplied to customers in the wind turbine blade sector, have higher gross profit margins as compared to woven roving combo mats and stitched mats, which are mainly supplied to customers in other industries. This is primarily due to the more stringent operating criteria and technical requirements in the wind turbine blade sector and comparatively less competition we face in such industry due to the high barriers to entry. In addition, as multi-axial fabrics and uni-directional fabrics together contributed to over 85% of our total revenue in each of 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015 and are expected to continue to be our major products in the future, the changes in their profitability will have a significant impact on our overall profitability.

Our product mix will be also affected by new products we launch from time to time. For example, we launched our E/PP compofil fabrics product in the fourth quarter of 2012, which were mainly used in the transportation, construction and sporting goods industries with a relatively high gross profit margin, as a result of high barriers to entry for the production of this product and the first-mover advantages we have gained on this product. Any increase in the contribution by E/PP compofil fabrics to our overall revenue is expected to positively affect our overall gross profit margin. Although we intend to continue to focus on fiberglass fabrics used in the wind turbine blade sector, our current pipeline of products also includes basalt fiber fabrics, which we believe are complimentary to and will enrich our existing product mix. Our future results of operations also will be affected by the profitability we may achieve on such product candidate.

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Cost and Availability of Raw Materials

Cost of raw materials accounts for a significant portion of our cost of sales. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, cost of raw materials accounted for 62.3%, 64.4%, 73.6%, 73.7% and 74.5% of our total cost of sales, respectively. Fiberglass is our key raw material. Fluctuations in the prices of fiberglass could significantly affect our gross profit margin if such increases are not taken into account in the pricing of our fiberglass fabrics. During the Track Record Period, we typically entered into annual agreements with our supplier of fiberglass at around the same time as we entered into annual agreements with some of our customers for the supply of our products in a given year, which was typically at the year end of the previous year or in the first quarter of such given year. As such, we were normally able to substantially lock in the unit cost of fiberglass in order to deliver products under some of our sales contracts with customers. However, to the extent that we are not able to lock in such unit cost or if our anticipated unit cost for completing a purchase order is not accurate, price fluctuations in fiberglass may cause our actual costs to differ from our original estimates, and any cost overrun can result in a lower-than expected profit on a purchase order. The price of fiberglass may fluctuate due to various factors, many of which may be out of our control, such as any undersupply due to a limited number of qualified fiberglass suppliers to the wind turbine blade sector, overall economic conditions and uncertainty in market demand.

In addition, the availability of fiberglass also has a significant impact on our business and results of operations. During the Track Record Period, we purchased all fiberglass used for the manufacture of our wind power related products and substantially all fiberglass used for the manufacture of our other products, directly or indirectly, from China Jushi, a worldwide leading manufacturer of fiberglass. For details, see “Business — Raw Materials, Packaging Materials and Suppliers — Purchases of Fiberglass from China Jushi.” Our actual production volume of fiberglass and profitability in a given period depends on, to a certain extent, the availability, amount and price of fiberglass that China Jushi is able to supply. Any shortage or delay in the supply will have an adverse impact on our ability to timely meet our customers’ orders and in turn, our results of operations.

Fluctuations in Foreign Currency Exchange Rates

We conduct our business both in China and overseas. Our revenues from overseas, which accounted for 69.8%, 68.8%, 60.8%, 70.8% and 47.4%, respectively, of our total revenue in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, were denominated in various foreign currencies such as U.S. dollars and Euros, while we purchased our raw materials using Renminbi from suppliers in China. If Renminbi significantly appreciates against foreign currencies, the revenue we realise from overseas contracts denominated in foreign currencies will be less than what we would realise at the foreign exchange rate at the time we tendered for the contracts, and we will sustain exchange losses on our receivables denominated in foreign currencies. Conversely, if Renminbi significantly depreciates against foreign currencies, we will realise more revenue from overseas contracts denominated in foreign currencies and receive exchange gains on our receivables denominated in foreign currencies. In addition, we also purchased a substantial portion of our machines and equipment from overseas markets in Euros.

To manage our foreign exchange risks, we entered into foreign currency forward contracts with reputable commercial banks in China on a case-by-case basis to enjoy a pre-agreed fixed exchange rate during the Track Record Period. By entering into foreign currency forward contracts which set forth a pre-agreed fixed exchange rate, we are able to lock down the RMB-equivalent sales amount to be received by us and avoid any uncertainties with respect to our expected income. However, any depreciation of Renminbi against the U.S. dollar or the Euro after the lock-down of the exchange rate would cause us to receive a lower sales amount in Renminbi than we would have received had we not entered into such foreign currency forward contracts. We recorded a gain on financial instruments at FVTPL of RMB5.8 million in 2013, primarily due to the appreciation of Renminbi against other currencies at the end of 2013, whereas we recorded a loss on financial instruments at FVTPL of RMB17.2 million in 2014, primarily due to the depreciation of Renminbi against other currencies at the end of 2014. We recorded a gain on financial instruments at FVTPL of RMB7.5 million in the six months ended 30 June 2015, primarily due to the appreciation of Renminbi against other currencies in the first six months of 2015. As a general principle, we intend to lock down the exchange rates when we expect Renminbi will appreciate against

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the relevant foreign currencies in which we receive our revenue. Given the significance of our overseas business and our continuous purchases of machines and equipment in foreign currencies, the fluctuation in foreign currency exchange rates and the effectiveness of our future risk management activities are expected to continuously affect our results of operations. For details of our foreign currency forward contracts, also see “Business — Customers, Sales and Marketing — Foreign Currency Forward Contracts.”

Taxation

The EIT Law imposes a unified income tax rate of 25% on all domestic and foreign invested enterprises unless they are qualified for preferential tax treatment. During the Track Record Period, Hengshi Fiberglass, our PRC subsidiary, was recognised as a high and new technology enterprise by the PRC government and enjoyed a preferential income tax rate of 15%. This preferential tax treatment expired on 31 December 2014. We are currently in the process of applying for the extension of this preferential tax treatment, and expect that the renewal of such qualification will be approved by the end of 2015 with a three-year term from 2015 to 2017. However, if we fail to renew such qualification, the income tax rate applicable to Hengshi Fiberglass would increase to 25%, which could have a material adverse effect on our results of operations and financial condition. For details, see “Risk Factors — Risks Relating to Our Group — Any loss of or significant reduction in the preferential tax treatment and government subsidies we currently enjoy in China may negatively affect our financial condition.”

DESCRIPTION OF PRINCIPAL CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ITEMS

Revenue

Revenue by Products

Our revenue consists primarily of sales of multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. The table below sets forth, for the periods indicated, a breakdown of our revenue by products.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Multi-axial fabrics	344,374	78.1%	296,236	73.1%	488,122	71.9%	216,262	73.9%	366,265	73.2%
Uni-directional fabrics	64,663	14.7%	61,908	15.3%	132,478	19.5%	42,161	14.4%	102,990	20.6%
Woven roving combo mats	22,416	5.1%	19,567	4.8%	20,708	3.1%	9,509	3.2%	10,295	2.1%
Stitched mats	5,403	1.2%	8,795	2.1%	8,924	1.3%	4,558	1.6%	1,898	0.4%
E/PP compofil fabrics	4,107	0.9%	18,887	4.7%	28,368	4.2%	20,308	6.9%	18,730	3.7%
Total	440,963	100.0%	405,393	100.0%	678,600	100.0%	292,798	100.0%	500,178	100.0%

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The table below sets forth, for the periods indicated, the sales volume, average selling price and revenue of our products.

	Year ended 31 December									Six months ended 30 June					
	2012			2013			2014			2014			2015		
	Average sales volume	selling price	Revenue	Average sales volume	selling price	Revenue	Average sales volume	selling price	Revenue	Average sales volume	selling price	Revenue	Average sales volume	selling price	Revenue
	Tonnes	RMB per tonne	RMB'000	Tonnes	RMB per tonne	RMB'000	Tonnes	RMB per tonne	RMB'000	Tonnes	RMB per tonne	RMB'000 (unaudited)	Tonnes	RMB per tonne	RMB'000
Multi-axial fabrics	31,402	10,967 ⁽¹⁾	344,374	28,960	10,229 ⁽¹⁾	296,236	48,794	10,004 ⁽¹⁾	488,122	21,311	10,148	216,262	35,155	10,418	366,265
Uni-directional fabrics	6,558	9,860	64,663	6,810	9,090	61,908	13,250	9,999	132,478	4,468	9,436	42,161	9,920	10,382	102,990
Woven roving combo mats	2,524	8,880	22,416	2,246	8,713	19,567	2,366	8,752	20,708	1,099	8,650	9,509	1,179	8,733	10,295
Stitched mats	746	7,238	5,403	1,170	7,519	8,795	1,136	7,852	8,924	580	7,853	4,558	226	8,410	1,898
E/PP composit fabrics	199	20,634	4,107	941	20,065	18,887	1,490	19,042	28,368	1,071	18,966	20,308	990	18,925	18,730
Total	41,430	10,644	440,963	40,127	10,103	405,393	67,036	10,123	678,600	28,529	10,263	292,798	47,470	10,537	500,178

Note:

- (1) We typically enter into sales contracts with our wind energy customers in the wind turbine blade sector at the end of each year to determine the selling price of the products for the next year, which is in line with the market practice. The selling price in each contract is based on the market situation when the sales contract is signed and normally would not be changed until the next contract is signed even though the market situation may fluctuate during the contract term. The average selling price of multi-axial fabrics for 2013 decreased by 6.7% as compared with the average selling price for 2012. The average selling price of multi-axial fabrics for 2014 slightly decreased by 2.2% as compared with the average selling price for 2013. The market for such fabrics improved from the second half of 2014 to April 2015. However, according to the typical sales contracts we entered into, the selling prices for multi-axial fabrics in 2014, which were determined at the end of 2013, must still be implemented notwithstanding the increased price on the market.

Revenue by Applications

Our products are primarily used in the wind turbine blade sector and, to a lesser extent, in other industries such as transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods.

The table below sets forth, for the periods indicated, a breakdown of our revenue by application of products.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Products used in wind turbine blade sector ⁽¹⁾	331,133	75.1%	301,670	74.4%	563,940	83.1%	237,762	81.2%	432,715	86.5%
Products used in other industries	109,830	24.9%	103,723	25.6%	114,660	16.9%	55,036	18.8%	67,463	13.5%
Total	440,963	100.0%	405,393	100.0%	678,600	100.0%	292,798	100.0%	500,178	100.0%

Note:

- (1) Represents revenue derived from products that are specified in contracts for use in the wind turbine blade sector based on contract terms.

Revenue by Geography

During the Track Record Period, we sold our fiberglass fabrics to both overseas and PRC-based customers. Europe, North America and mainland China are our major markets, and sales to these markets accounted for an aggregate of 93.3%, 84.5%, 88.2%, 86.5% and 97.9% of our total revenue in 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, respectively.

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The table below sets forth, for the periods indicated, a breakdown of our revenue by location of our customers to which we deliver our products.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Overseas markets										
Europe	173,466	39.3%	138,773	34.2%	195,962	28.9%	96,738	33.0%	131,933	26.4%
North										
America	104,978	23.8%	77,451	19.1%	136,468	20.1%	70,862	24.2%	94,372	18.9%
Asia ⁽¹⁾	27,974	6.3%	59,283	14.6%	74,006	10.9%	37,517	12.8%	8,944	1.8%
Latin										
America	875	0.2%	2,857	0.7%	5,853	0.9%	1,835	0.6%	1,617	0.3%
Australia	701	0.2%	555	0.1%	334	0.0%	242	0.08%	104	0.02%
Subtotal	<u>307,994</u>	<u>69.8%</u>	<u>278,919</u>	<u>68.8%</u>	<u>412,623</u>	<u>60.8%</u>	<u>207,194</u>	<u>70.8%</u>	<u>236,970</u>	<u>47.4%</u>
PRC market ⁽²⁾	132,969	30.2%	126,474	31.2%	265,977	39.2%	85,604	29.2%	263,208	52.6%
Total	<u>440,963</u>	<u>100.0%</u>	<u>405,393</u>	<u>100.0%</u>	<u>678,600</u>	<u>100.0%</u>	<u>292,798</u>	<u>100.0%</u>	<u>500,178</u>	<u>100.0%</u>

Notes:

(1) Includes Hong Kong, Macau and Taiwan and excludes the PRC.

(2) Excludes Hong Kong, Macau and Taiwan.

Cost of Sales

Our cost of sales consists of (i) cost of raw materials, primarily representing cost of fiberglass and other raw materials used by us, (ii) depreciation cost of our machinery and equipment, (iii) labour costs, primarily representing salaries and welfare benefits of our staff directly involved in the manufacture of our products, (iv) cost of packaging materials, (v) export-related value-added taxes, which are calculated as a certain percentage of the revenue derived from exports of products and (vi) others, primarily representing write-down of inventories, utilities cost and other miscellaneous costs.

The table below sets forth, for the periods indicated, the components of our cost of sales and the components as a percentage of total cost of sales.

	Year ended 31 December						Six months ended 30 June			
	2012		2013		2014		2014		2015	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
	(unaudited)									
Cost of raw materials	209,404	62.3%	206,597	64.4%	359,022	73.6%	158,094	73.7%	260,478	74.5%
Depreciation	38,251	11.4%	36,890	11.5%	38,019	7.8%	18,476	8.6%	20,986	6.0%
Labour cost	20,270	6.0%	19,607	6.1%	32,665	6.7%	13,123	6.1%	29,348	8.4%
Cost of packaging										
materials	13,466	4.0%	12,336	3.8%	22,603	4.6%	9,522	4.4%	16,837	4.8%
Export-related value-added										
taxes	35,521	10.6%	33,823	10.5%	4,228	0.9%	4,228	2.0%	—	—%
Other	19,074	5.7%	11,699	3.7%	31,404	6.4%	11,206	5.2%	21,858	6.3%
Total	<u>335,986</u>	<u>100.0%</u>	<u>320,952</u>	<u>100.0%</u>	<u>487,941</u>	<u>100.0%</u>	<u>214,649</u>	<u>100.0%</u>	<u>349,507</u>	<u>100.0%</u>

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Fiberglass is our key raw material. Set forth below is a sensitivity analysis of the impact to our results of operations during the Track Record Period from the fluctuation in the cost of fiberglass, assuming all other variables remain constant. This sensitivity analysis is for illustration purposes only, and the actual results may differ significantly from those illustrated below.

	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	(RMB in millions, except percentages)							
Impact on certain income statement items in the six months ended 30 June 2015								
Change in cost of fiberglass	48.3	36.2	24.1	12.1	(12.1)	(24.1)	(36.2)	(48.3)
Change in gross profit	(48.3)	(36.2)	(24.1)	(12.1)	12.1	24.1	36.2	48.3
Change in gross profit margin	(9.7%)	(7.2%)	(4.8%)	(2.4%)	2.4%	4.8%	7.2%	9.7%
Impact on certain income statement items in 2014								
Change in cost of fiberglass	63	48	32	16	(16)	(32)	(48)	(63)
Change in gross profit	(63)	(48)	(32)	(16)	16	32	48	63
Change in gross profit margin	(9.3%)	(7.0%)	(4.7%)	(2.3%)	2.3%	4.7%	7.0%	9.3%
Impact on certain income statement items in 2013								
Change in cost of fiberglass	39.9	29.9	19.9	10.0	(10.0)	(19.9)	(29.9)	(39.9)
Change in gross profit	(39.9)	(29.9)	(19.9)	(10.0)	10.0	19.9	29.9	39.9
Change in gross profit margin	(9.8%)	(7.4%)	(4.9%)	(2.5%)	2.5%	4.9%	7.4%	9.8%
Impact on certain income statement items in 2012								
Change in cost of fiberglass	42.0	31.5	21.0	10.5	(10.5)	(21.0)	(31.5)	(42.0)
Change in gross profit	(42.0)	(31.5)	(21.0)	(10.5)	10.5	21.0	31.5	42.0
Change in gross profit margin	(9.5%)	(7.1%)	(4.8%)	(2.4%)	2.4%	4.8%	7.1%	9.5%

Gross Profit

Gross profit represents the excess of revenue over cost of sales. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our gross profit was RMB105.0 million, RMB84.4 million, RMB190.7 million, RMB78.1 million and RMB150.7 million, respectively, and our gross profit margin was 23.8%, 20.8%, 28.1%, 26.7% and 30.1%, respectively.

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Historically our gross profit margin was affected by a number of factors, including the utilisation rate of our production facilities. Set forth below is a sensitivity analysis of the impact to our results of operations during the Track Record Period from the fluctuation in the utilisation rate of our production facilities, assuming that the revenue and the cost of sales vary with the utilisation rate and all other variables remain constant. This sensitivity analysis is for illustration purposes only, and the actual results may differ significantly from those illustrated below.

	Change in percentage point of the utilisation rate							
	+20%	+15%	+10%	+5%	-5%	-10%	-15%	-20%
	(RMB in millions, except percentages)							
Impact on certain income statement items in the six months ended 30 June 2015								
Change in revenue	125.3	93.9	62.6	31.3	(31.3)	(62.6)	(93.9)	(125.3)
Change in cost of sales	72.6	54.5	36.3	18.2	(18.2)	(36.4)	(54.6)	(72.9)
Change in gross profit margin	2.4%	1.9%	1.3%	0.7%	(0.8%)	(1.7%)	(2.7%)	(3.9%)
Impact on certain income statement items in 2014								
Change in revenue	163.0	122.2	81.5	40.7	(40.7)	(81.5)	(122.2)	(163.0)
Change in cost of sales	97.2	72.9	48.7	24.3	(24.3)	(48.6)	(73.1)	(97.4)
Change in gross profit margin	2.4%	1.9%	1.3%	0.7%	(0.8%)	(1.7%)	(2.7%)	(3.8%)
Impact on certain income statement items in 2013								
Change in revenue	123.6	92.7	61.8	30.9	(30.9)	(61.8)	(92.7)	(123.6)
Change in cost of sales	79.6	59.7	39.8	19.9	(20.0)	(40.0)	(60.0)	(80.2)
Change in gross profit margin	3.5%	2.8%	2.0%	1.1%	(1.2%)	(2.6%)	(4.2%)	(6.3%)
Impact on certain income statement items in 2012								
Change in revenue	122.8	92.1	61.4	30.7	(30.7)	(61.4)	(92.1)	(122.8)
Change in cost of sales	74.9	56.2	37.4	18.7	(18.7)	(37.4)	(56.1)	(74.7)
Change in gross profit margin	3.3%	2.6%	1.9%	1.0%	(1.1%)	(2.5%)	(4.0%)	(5.9%)

Other Income

Our other income primarily consists of (i) interest income from related parties, representing interest income on amounts due from related parties of a non-trade nature, (ii) government subsidy, primarily relating to our engagement in new energy industries in China, (iii) interest income from a shareholder, representing interest income on amounts due from a shareholder of a non-trade nature, (iv) income from scrap sales, primarily relating to sales of scrap materials generated from our production process, (v) bank interest income, representing interest income from our pledged bank deposits and current deposits, (vi) rental income, primarily relating to our leasing of unutilised factories and warehouses to certain related parties, and (vii) sundry income. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our other income was RMB25.5 million, RMB37.4 million, RMB26.9 million, RMB12.9 million and RMB6.5 million, respectively, accounting for 5.8%, 9.2%, 4.0%, 4.4% and 1.3% of our total revenue during the same periods, respectively.

Other Gains and Losses

Our other gains primarily consist of (i) gain on release of financial guarantee contracts, which is recorded when the underlying bank facilities guaranteed by us are repaid by the relevant borrowers, (ii) gain on disposal of prepaid lease payments, (iii) gain on disposal of property, plant and equipment and (iv) gains on financial instruments at FVTPL, primarily relating to our foreign currency forward contracts. Our other losses primarily consist of (i) losses on financial instruments at FVTPL, primarily relating to our foreign currency forward contracts, (ii) net foreign exchange loss and (iii) allowance for doubtful debts, primarily relating to long overdue trade receivables from certain customers. For details of our foreign currency forward contracts, see “Business —

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Customers, Sales and Marketing — Foreign Currency Forward Contracts” and “— Factors Affecting Our Results of Operations and Financial Condition — Fluctuations in Foreign Currency Exchange Rates.”

The table below sets forth, for the periods indicated, a breakdown of our other gains and losses.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Gain (loss) on financial instruments at FVTPL	—	5,800	(17,200)	(17,900)	7,520
Allowance for doubtful debts	(2,500)	—	(508)	(448)	(8,139)
Reversal of allowance for doubtful debts	—	1,700	—	—	—
Gain on release of financial guarantee contracts	34,900	47,600	38,200	15,800	65,300
Gain on disposal of property, plant and equipment	—	77	5,843	47	—
Gain on disposal of prepaid lease payments	—	—	11,271	—	—
Foreign exchange (loss) gain, net	(62)	(4,256)	(578)	1,205	259
Total	<u>32,338</u>	<u>50,921</u>	<u>37,028</u>	<u>(1,296)</u>	<u>64,940</u>

Selling and Distribution Expenses

Our selling and distribution expenses primarily consist of (i) transportation expenses for delivery of products to our customers, (ii) fees paid to export agents in respect of our exported products, (iii) salary and welfare expenses for employees involved in selling and distribution activities and (iv) other expenses, including advertising and marketing expenses relating to our participation in trade fairs and other marketing activities, travelling expenses for marketing purposes and other miscellaneous expenses. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our selling and distribution expenses were RMB27.3 million, RMB30.2 million, RMB44.0 million, RMB21.0 million and RMB30.9 million, respectively, accounting for 6.2%, 7.5%, 6.5%, 7.2% and 6.2% of our total revenue during the same periods, respectively.

Administrative Expenses

Administrative expenses primarily consist of (i) salary and welfare expenses for management and administrative personnel, (ii) depreciation and amortisation costs relating to our land use rights and office equipment, (iii) other taxes relating to our properties and land use rights, stamp duty and other miscellaneous taxes and (iv) others, primarily including professional services fees, travelling and entertainment expenses and other miscellaneous expenses. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our administrative expenses were RMB11.9 million, RMB11.0 million, RMB13.5 million, RMB6.9 million and RMB13.4 million, respectively, accounting for 2.7%, 2.7%, 2.0%, 2.4% and 2.7% of our total revenue during the same periods, respectively.

Research Expenditure

Our research expenditure primarily consists of (i) costs of materials consumed during our research and development activities, (ii) salary and welfare expenses for research and development personnel, (iii) depreciation and amortisation of research and development equipment and (iv) other miscellaneous expenditures. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our research expenditure was RMB15.3 million, RMB13.3 million, RMB21.0 million, RMB8.8 million and RMB15.6 million, respectively, accounting for 3.5%, 3.3%, 3.1%, 3.0% and 3.1% of our total revenue during the same periods, respectively.

Other Expenses

Our other expenses primarily consist of rental expense, listing expenses for our proposed Listing on the Hong Kong Stock Exchange, the donation we made for environmental protection purposes and other

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miscellaneous expenses. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our other expenses were RMB0.7 million, RMB0.7 million, RMB3.1 million, RMB0.7 million and RMB8.7 million, respectively, accounting for 0.2%, 0.2%, 0.5%, 0.2% and 1.7% of our total revenue during the same periods, respectively.

Finance Costs

Our finance costs primarily consist of interests on our bank loans, after deducting amounts capitalised in construction in progress. In 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, our finance costs were RMB30.1 million, RMB34.2 million, RMB25.5 million, RMB13.4 million and RMB10.7 million, accounting for 6.8%, 8.4%, 3.8%, 4.6% and 2.1% of our total revenue during the same periods, respectively.

Income Tax Expense

Our income tax expense primarily consists of profit tax charged on our subsidiaries, which is affected by adjustments related to deferred tax expenses or credit arising from the timing difference between accounting and taxable profits.

PRC. The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of PRC companies as determined in accordance with the EIT Law which became effective on 1 January 2008. Our PRC subsidiary, Hengshi Fiberglass, was qualified as a High and New Technology Enterprise in China from 2012 to 2014, and therefore enjoyed a preferential income tax rate of 15% during the same period. Hengshi Fiberglass is currently in the process of renewing its qualification as the High and New Technology Enterprise, which is expected to be granted by the end of 2015.

Egypt. We established a subsidiary in Egypt in December 2014, which was subject to a statutory corporate tax rate of 25% during the Track Record Period. Such subsidiary did not generate any assessable profit during the Track Record Period.

Others. During the Track Record Period, we were not subject to any British Virgin Islands income tax, and did not provide for any Hong Kong profits tax either, as we had no business or operations subject to us these relevant taxes during the same period.

During the Track Record Period and up to the Latest Practicable Date, we have paid all relevant taxes applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

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RESULTS OF OPERATIONS

The table below sets out our consolidated statements of comprehensive income for the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 and 2015, which are derived from the Accountants' Report as set out in Appendix I to this prospectus.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	440,963	405,393	678,600	292,798	500,178
Cost of sales	(335,986)	(320,952)	(487,941)	(214,649)	(349,507)
Gross profit	104,977	84,441	190,659	78,149	150,671
Other income	25,453	37,437	26,865	12,874	6,518
Other gains and losses	32,338	50,921	37,028	(1,296)	64,940
Selling and distribution expenses	(27,288)	(30,215)	(43,974)	(21,004)	(30,885)
Administrative expenses	(11,921)	(10,978)	(13,495)	(6,891)	(13,420)
Research expenditure	(15,284)	(13,310)	(21,004)	(8,769)	(15,574)
Other expenses	(736)	(668)	(3,093)	(703)	(8,726)
Finance costs	(30,086)	(34,174)	(25,507)	(13,406)	(10,727)
Profit before tax	77,453	83,454	147,479	38,954	142,797
Income tax expense	(5,841)	(5,344)	(15,745)	(3,517)	(12,906)
Profit for the year/period	<u>71,612</u>	<u>78,110</u>	<u>131,734</u>	<u>35,437</u>	<u>129,891</u>
Profit for the year/period attributable to:					
Owners of the Company	71,612	78,110	131,789	35,437	130,160
Non-controlling interests	—	—	(55)	—	(269)

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2015 compared with six months ended 30 June 2014

Revenue

Revenue by products. Our total revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015, which was primarily due to an increase in our overall sales volume from 28,529 tonnes in the six months ended 30 June 2014 to 47,470 tonnes in the six months ended 30 June 2015 and an increase in the average selling price of our products from RMB10,263 per tonne in the six months ended 30 June 2014 to RMB10,537 per tonne in the six months ended 30 June 2015. In the six months ended 30 June 2015, we recorded increases in revenue derived from sales of multi-axial fabrics, uni-directional fabrics and woven roving combo mat, which in aggregate, represented 95.9% of our total revenue for the six months ended 30 June 2015 in aggregate.

- **Multi-axial fabrics.** Revenue derived from sales of multi-axial fabrics increased by RMB150.0 million, or 69.4%, from RMB216.3 million in the six months ended 30 June 2014 to RMB366.3 million in the six months ended 30 June 2015, primarily due to a significant increase in the sales volume from 21,311 tonnes in the six months ended 30 June 2014 to 35,155 tonnes in the six months ended 30 June 2015, as well as an increase in the average selling price from RMB10,148 per tonne in the six months ended 30 June 2014 to RMB10,418 per tonne in the six months ended 30 June 2015. The increase in the sales volume of our multi-axial fabrics was primarily due to increased market demand for such products, a new manufacturing process adopted by one of our customers which consumes more multi-axial fabrics as well as our efforts to increase sales to our existing customers and develop new customers. The increase in the average selling price of our multi-axial fabrics was primarily due to (i) the change in our product mix by commencing sales of new products with higher

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selling prices, which was principally driven by the technical specifications required by our customers, (ii) the time lag effects on the pricing of such products, as some of our sales contracts of multi-axial fabrics generating revenue in the first six months of 2015 were signed at the end of 2014 when the prospects of the global wind turbine blade sector were better than those at the end of 2013 when the sales contracts for 2014 were signed and (iii) the provision of cutting services to more of our multi-axial fabrics, which increased the unit price for our multi-axial fabrics.

- *Uni-directional fabrics.* Revenue derived from sales of uni-directional fabrics increased by RMB60.8 million, or 144.1%, from RMB42.2 million in the six months ended 30 June 2014 to RMB103.0 million in the six months ended 30 June 2015, primarily due to an increase in the sales volume from 4,468 tonnes in the six months ended 30 June 2014 to 9,920 tonnes in the six months ended 30 June 2015 and an increase in the average selling price from RMB9,436 per tonne in the six months ended 30 June 2014 to RMB10,382 per tonne in the six months ended 30 June 2015. The increase in the sales volume of our uni-directional fabrics was primarily driven by increased market demand for our products as a result of our sales efforts to increase sales to our existing customers and develop new customers. The increase in the average selling price of our uni-directional fabrics was primarily due to the fact that (i) we commenced sales of a series of high-modulus uni-directional fabrics in the second half of 2014, which had a higher average selling price as compared to other uni-directional fabrics as a result of their enhanced technical specifications, and (ii) the time lag effects on the pricing of such products, as some of our sales contracts of uni-directional fabrics generating revenue in the first six months of 2015 were signed at the end of 2014 when the prospects of the global wind turbine blade sector were better than those at the end of 2013 when the sales contracts for 2014 were signed.
- *Woven roving combo mats.* Revenue derived from sales of woven roving combo mats increased by RMB0.8 million, or 8.4%, from RMB9.5 million in the six months ended 30 June 2014 to RMB10.3 million in the six months ended 30 June 2015. Such increase was primarily due to an increase in the sales volume from 1,099 tonnes in the six months ended 30 June 2014 to 1,178 tonnes in the six months ended 30 June 2015 and an increase in the average selling price from RMB8,650 per tonne in the six months ended 30 June 2014 to RMB8,733 per tonne in the six months ended 30 June 2015. As woven roving combo mats were neither sold to the wind turbine blade sector nor the primary focus of our business, we usually maintained our customer base and selling price for such products to make similar levels of sales, and revenues derived from their sales may fluctuate from year to year due to natural changes in market demand and conditions.
- *Stitched mats.* Revenue derived from sales of stitched mats decreased by RMB2.7 million, or 58.7%, from RMB4.6 million in the six months ended 30 June 2014 to RMB1.9 million in the six months ended 30 June 2015, primarily due to a decrease in the sales volume from 580 tonnes in the six months ended 30 June 2014 to 226 tonnes in the six months ended 30 June 2015, the effect of which was partially offset by an increase in the average selling price from RMB7,853 per tonne in the six months ended 30 June 2014 to RMB8,410 per tonnes in the six months ended 30 June 2015. As stitched mats were neither sold to the wind turbine blade sector nor the focus of our business, we usually maintained our customer base and selling price for such products to make similar levels of sales. The decrease in our revenue of stitched mats in the first six months of 2015 as compared with the first six months of 2014 was primarily due to natural changes in market demand and conditions from shipping manufacturing and pipeline industries.
- *E/PP compofil fabrics.* Revenue derived from sales of E/PP compofil fabrics decreased by RMB1.6 million, or 7.9%, from RMB20.3 million in the six months ended 30 June 2014 to RMB18.7 million in the six months ended 30 June 2015, primarily due to a decrease in the sales volume from 1,071 tonnes in the six months ended 30 June 2014 to 990 tonnes in the six months ended 30 June 2015, as well as a decrease in the average selling price from RMB18,966 per tonne in the six months ended 30 June 2014 to RMB18,925 per tonne in the six months ended 30 June 2015. The decrease in the sales volume of our E/PP compofil fabrics was primarily due to natural change in market conditions. The decrease in the averaging selling price of our E/PP compofil fabrics was primarily due to the fact

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that we were still at the early stage of marketing and promoting such product, and accordingly we priced such product more competitively to promote its applications.

Revenue by application. Our total revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015, which was primarily due to increases in revenue generated from the wind turbine blade sector and revenue generated from other industries. Revenue generated from the wind turbine blade sector, which is the aggregate of sales of products specified in contracts for wind turbine blade sector, increased by RMB194.9 million, or 82.0%, from RMB237.8 million in the six months ended 30 June 2014 to RMB432.7 million in the six months ended 30 June 2015, which was primarily due to (i) our increased sales efforts to make sales to existing customers and develop new customers and (ii) our expanded production capacity, which together allowed us to capture the increased market demand from the wind turbine blade sector when it recovered in 2015. Revenue generated from other industries increased by RMB12.5 million, or 22.7%, from RMB55.0 million in the six months ended 30 June 2014 to RMB67.5 million in the six months ended 30 June 2015, primarily due to increased market demand from the transportation and construction industries.

Revenue by geography. Our total revenue increased by RMB207.4 million, or 70.8%, from RMB292.8 million in the six months ended 30 June 2014 to RMB500.2 million in the six months ended 30 June 2015, which was primarily due to increases in revenue derived from Europe, North America and the PRC, the effects of which were partially offset by a decrease in revenue derived from Asia (excluding the PRC).

- Revenue derived from Europe, North America, and the PRC increased, in aggregate, by RMB236.3 million, or 93.3%, from RMB253.2 million in the six months ended 30 June 2014 to RMB489.5 million in the six months ended 30 June 2015, primarily due to our increased sales efforts to grow our scale and capture market share in the global wind turbine blade sector, particularly in the PRC, as well as in other industries where our end customers operate. In addition, in the first six months of 2015, we benefited from a policy change on feed-in tariffs in China. Our revenue derived from the PRC increased RMB177.6 million, or 207.5%, from RMB85.6 million in the six months ended 30 June 2014 to RMB263.2 million in the six months ended 30 June 2015. Such increase was primarily due to the fact that the reduced feed-in tariffs in China will apply to onshore wind farms authorised after 1 January 2015 or authorised before 1 January 2015 but connected to the grid after 1 January 2016. As a result of such policy change, we believe many of our customers with onshore wind farms authorised before 1 January 2015 will increase or have increased the pace of construction of their wind farms so that they can take advantage of the existing feed-in tariffs by connecting to the grid before 1 January 2016. We expect the onshore wind farm construction activities in the PRC to slow down after 1 January 2016.
- Revenue derived from Asia (excluding the PRC) decreased by RMB28.6 million, or 76.3%, from RMB37.5 million in the six months ended 30 June 2014 to RMB8.9 million in the six months ended 30 June 2015, primarily due to the fact that we temporarily ceased our sales to one of our customers in Hong Kong in the first half of 2015 due to its delay of payments. We have subsequently resolved the payment issue and resumed sales to the customer.
- Revenue derived from Latin America decreased by RMB0.2 million, or 11.1%, from RMB1.8 million in the six months ended 30 June 2014 to RMB1.6 million in the six months ended 30 June 2015, primarily due to natural changes in market demand.

Cost of sales

Our total cost of sales increased by RMB134.9 million, or 62.9%, from RMB214.6 million in the six months ended 30 June 2014 to RMB349.5 million in the six months ended 30 June 2015. The increase was primarily due to increases in the cost of raw materials, labour cost, cost of packaging materials, depreciation cost and other costs the effects of which were partially offset by a decrease in the export-related value-added taxes.

- **Cost of raw materials.** Cost of raw materials increased by RMB102.4 million, or 64.6%, from RMB158.1 million in the six months ended 30 June 2014 to RMB260.5 million in the six months

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ended 30 June 2015, primarily due to (i) increased volume of fiberglass we consumed as a result of our increased sales volume, and (ii) increased unit cost of fiberglass.

- *Depreciation cost.* Depreciation cost increased by RMB2.5 million, or 13.5%, from RMB18.5 million in the six months ended 30 June 2014 to RMB21.0 million in the six months ended 30 June 2015, primarily because we started depreciation of the new equipment we purchased in connection with our Hengshi Phase III Expansion Plan.
- *Labour cost.* Labour cost increased by RMB16.2 million, or 123.7%, from RMB13.1 million in the six months ended 30 June 2014 to RMB29.3 million in the six months ended 30 June 2015, primarily due to increases in the number of our employees directly involved in the manufacture of our products and the average salary we paid to such employees.
- *Cost of packaging materials.* Cost of packaging materials increased by RMB7.3 million, or 76.8%, from RMB9.5 million in the six months ended 30 June 2014 to RMB16.8 million in the six months ended 30 June 2015, primarily due to (i) increased volume of packaging materials consumed by us as a result of our increased sales volume and an increase in the provision of cutting services to more of our multi-axial fabrics which consumes more packaging materials and (ii) increased unit cost of the packaging materials used by us.
- *Export-related value-added taxes.* We did not record any export-related value-added taxes in the first six months of 2015 and we recorded RMB4.2 million in the first six months of 2014, primarily because we applied for and obtained approval to be exempt from paying value-added taxes on our exported products starting in February 2014. As such, we only paid value-added taxes on our exported products for a short period of time in the first six months of 2014 before we obtained such approval, and we did not pay such tax in the first six months of 2015.
- *Others.* Other costs increased by RMB10.7 million, or 95.5%, from RMB11.2 million in the six months ended 30 June 2014 to RMB21.9 million in the six months ended 30 June 2015, primarily due to increases in ancillary materials consumed and maintenance expenses as a result of our increased sales volume in the first six months of 2015.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB72.6 million, or 93.0%, from RMB78.1 million in the six months ended 30 June 2014 to RMB150.7 million in the six months ended 30 June 2015. Our gross profit margin increased from 26.7% in the six months ended 30 June 2014 to 30.1% in the six months ended 30 June 2015, primarily due to (i) an increase in the average selling price of our uni-directional fabrics as a result of our commencement of sales of a series of high-modulus uni-directional fabrics in the second half of 2014, (ii) an increase in the average selling price of our multi-axial fabrics products as a result of our provision of cutting services to our customers and (iii) a decrease in our unit cost of depreciation, principally driven by a higher utilisation rate we achieved in the first six months of 2015, which were in turn attributable to the strong market demand from the wind turbine blade sector in the first six months of 2015. The increase in our gross profit margin was partially offset by the increase in the unit cost of our raw materials

Other income

Our other income decreased by RMB6.4 million, or 49.6%, from RMB12.9 million in the six months ended 30 June 2014 to RMB6.5 million in the six months ended 30 June 2015. The decrease was primarily due to (i) a decrease in interest income from other related parties, primarily due to the repayment of certain amounts borrowed by our related parties at the end of 2014, and (ii) a decrease in rental income, primarily because we terminated our lease agreements with our related parties in 2014 as we have transferred relevant buildings to local government.

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Other gains and losses

We recorded other gains of RMB64.9 million for the first six months of 2015 while we recorded other losses of RMB1.3 million for the first six months of 2014. Such change was primarily due to (i) an increase in gain on release of financial guarantee contracts relating to the release of guarantees we provided to banks in respect to bank facilities granted to our related parties and a shareholder as a result of our discontinuation of such guarantees, and (ii) an increase in net foreign exchange gain.

Selling and distribution expenses

Selling and distribution expenses increased by RMB9.9 million, or 47.1%, from RMB21.0 million in the six months ended 30 June 2014 to RMB30.9 million in the six months ended 30 June 2015. The increase was primarily due to an increase in transportation expenses, principally driven by increased sales to both our PRC-based and overseas customers in the first six months of 2015, and an increase in fees paid to export agents as a result of our increased sales of products to overseas markets in the first six months of 2015.

Administrative expenses

Administrative expenses increased by RMB6.5 million, or 94.2%, from RMB6.9 million in the six months ended 30 June 2014 to RMB13.4 million in the six months ended 30 June 2015. The increase was primarily due to an increase in salary and welfare expenses as a result of increases in both the number of our administrative staff and the average salaries paid to such staff in the six months ended 30 June 2015, and expenses in connection with the establishment of our subsidiary in Egypt.

Research expenditure

Research expenditure increased by RMB6.8 million, or 77.3%, from RMB8.8 million in the six months ended 30 June 2014 to RMB15.6 million in the six months ended 30 June 2015. The increase was primarily due to (i) an increase in the cost of materials consumed in research and development activities, principally driven by our more active research and development activities in the six months ended 30 June 2015 with the aim of developing new customers in the wind turbine blade sector and satisfying new technical specifications required by our customers, which was in line with our increased sales volume as substantially all of our products were customised, and (ii) an increase in salary and welfare expenses paid to our research and development staff, principally driven by increases in both the number of our research and development staff and the average salaries paid to such staff in the six months ended 30 June 2015.

Other expenses

Other expenses increased by RMB8.0 million, or 1,142.9%, from RMB0.7 million in the six months ended 30 June 2014 to RMB8.7 million in the six months ended 30 June 2015. The increase was primarily due to the listing expenses of RMB8.6 million for our proposed Listing on the Hong Kong Stock Exchange, whereas there was no similar expense in the six months ended 30 June 2014.

Finance costs

Finance costs decreased by RMB2.7 million, or 20.1%, from RMB13.4 million in the six months ended 30 June 2014 to RMB10.7 million in the six months ended 30 June 2015. The decrease was primarily due to (i) a decrease in the average balance of our bank borrowings, (ii) a decrease in the average interest rate of our bank borrowings and (iii) the capitalisation of an interest amount of RMB1.4 million.

Profit before tax

As a result of the aforesaid factors, our profit before tax increased by RMB103.8 million, or 266.2%, from RMB39.0 million in the six months ended 30 June 2014 to RMB142.8 million in the six months ended 30 June 2015.

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Income tax expense

Income tax expense increased by RMB9.4 million, or 268.6%, from RMB3.5 million in the six months ended 30 June 2014 to RMB12.9 million in the six months ended 30 June 2015. The increase was primarily due to an increase in profit before tax. Our effective tax rate remained stable at 9.0% in the six months ended 30 June 2015 as compared with the same period in 2014.

Profit for the period

As a result for the above factors, profit for the period increased by RMB94.5 million, or 266.9%, from RMB35.4 million in the six months ended 30 June 2014 to RMB129.9 million in the six months ended 30 June 2015.

Year ended 31 December 2014 compared with year ended 31 December 2013

Revenue

Revenue by products. Our total revenue increased by RMB273.2 million, or 67.4%, from RMB405.4 million in 2013 to RMB678.6 million in 2014, which was primarily due to increases in our overall sales volume from 40,127 tonnes in 2013 to 67,036 tonnes in 2014 and the average selling price of our products from RMB10,103 per tonne in 2013 to RMB10,123 per tonne in 2014. In 2014, we recorded increases in revenue derived from sales of all product categories.

- *Multi-axial fabrics.* Revenue derived from sales of multi-axial fabrics increased by RMB191.9 million, or 64.8%, from RMB296.2 million in 2013 to RMB488.1 million in 2014, primarily due to a significant increase in the sales volume from 28,960 tonnes in 2013 to 48,794 tonnes in 2014, the effects of which were partially offset by a slight decrease in the average selling price from RMB10,229 per tonne in 2013 to RMB10,004 per tonne in 2014. The increase in the sales volume of our multi-axial fabrics was primarily due to our increased sales efforts and competitive pricing strategy to grow our scale and capture market share, when the global wind turbine blade sector recovered in 2014 with a 41.3% increase in the global newly added installed capacity from 36.6 GW in 2013 to 51.7 GW in 2014 and a 48.5% increase in demand for multi-axial fabrics from 158,900 tonnes in 2013 to 235,900 tonnes in 2014. The slight decrease in the average selling price of our multi-axial fabrics was primarily due to (i) the change in product mix, which was principally driven by the technical specifications required by our customers, (ii) the time lag effects on the pricing of such product, as some of our sales contracts of multi-axial fabrics generating revenue in 2014 were signed at the end of 2013 when the prospects of the global wind turbine blade sector in 2014 were still unclear, and (iii) our competitive pricing strategy to grow our scale and capture market share when the global wind turbine blade sector recovered in 2014.
- *Uni-directional fabrics.* Revenue derived from sales of uni-directional fabrics increased by RMB70.6 million, or 114.1%, from RMB61.9 million in 2013 to RMB132.5 million in 2014, primarily due to increases in the sales volume from 6,810 tonnes in 2013 to 13,250 tonnes in 2014 and the average selling price from RMB9,090 per tonne in 2013 to RMB9,999 per tonne in 2014. The increase in the sales volume of our uni-directional fabrics was primarily due to increased market demand for such products, principally driven by the recovery of the global wind turbine blade sector with a 41.3% increase in the global newly added installed capacity from 36.6 GW in 2013 to 51.7 GW in 2014 and a 48.6% increase in demand for uni-directional fabrics from 109,400 tonnes in 2013 to 162,600 tonnes in 2014, and our increased sales efforts to grow our scale and capture market share. The increase in the average selling price of our uni-directional fabrics was primarily because we commenced sales of a series high-modulus uni-directional fabrics in January 2014, which had a higher average selling price as compared to other series uni-directional fabrics as a result of their enhanced technical specifications.
- *Woven roving combo mats.* Revenue derived from sales of woven roving combo mats increased by RMB1.1 million, or 5.6%, from RMB19.6 million in 2013 to RMB20.7 million in 2014. Such

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increase was primarily due to increases in the sales volume from 2,246 tonnes in 2013 to 2,366 tonnes in 2014 and the average selling price from RMB8,713 per tonne in 2013 to RMB8,752 per tonne in 2014. As woven roving combo mats were neither sold to the wind turbine blade sector nor the primary focus of our business, we usually maintained our customer base and selling price for such products to make similar levels of sales, and revenues derived from their sales may fluctuate from year to year due to natural changes in market demand and conditions.

- *Stitched mats.* Revenue derived from sales of stitched mats remained relatively stable in 2013 and 2014, with a slight increase of RMB0.1 million, or 1.5%, from RMB8.8 million in 2013 to RMB8.9 million in 2014.
- *E/PP compofil fabrics.* Revenue derived from sales of E/PP compofil fabrics increased by RMB9.5 million, or 50.2%, from RMB18.9 million in 2013 to RMB28.4 million in 2014, primarily due to an increase in the sales volume from 941 tonnes in 2013 to 1,490 tonnes in 2014, the effects of which were partially offset by a decrease in the average selling price from RMB20,065 per tonne in 2013 to RMB19,042 per tonne in 2014. The increase in the sales volume of our E/PP compofil fabrics was primarily due to increased demand from transportation and construction industries as a result of our sales efforts. The decrease in the averaging selling price of our E/PP compofil fabrics was primarily because we were still at the early stage of marketing and promoting such product, and accordingly we priced such product more competitively to promote its applications.

Revenue by application. Our total revenue increased by RMB273.2 million, or 67.4%, from RMB405.4 million in 2013 to RMB678.6 million in 2014, which was primarily due to increases in revenue generated from the wind turbine blade sector and revenue generated from other industries. Revenue generated from the wind turbine blade sector, which is the aggregate of sales of products specified in contracts for wind turbine blade sector, increased by RMB262.2 million, or 86.9%, from RMB301.7 million in 2013 to RMB563.9 million in 2014, which was primarily due to (i) our increased sales efforts to make sales to existing customers and develop new customers and (ii) expansion of production capacity, which together allowed us to capture the increased market demand from the wind turbine blade sector when it recovered in 2014. Revenue generated from other industries increased by RMB11.0 million, or 10.6%, from RMB103.7 million in 2013 to RMB114.7 million in 2014, primarily due to increased market demand from transportation and construction industries.

Revenue by geography. Our total revenue increased by RMB273.2 million, or 67.4%, from RMB405.4 million in 2013 to RMB678.6 million in 2014, which was primarily due to increases in revenue derived from Europe, North America, Asia (excluding the PRC), Latin America and the PRC, the effects of which were partially offset by a slight decrease in revenue derived from Australia.

- Revenue derived from Europe, North America, Asia (excluding the PRC), Latin America and the PRC increased, in aggregate, by RMB273.4 million, or 67.5%, from RMB404.8 million in 2013 to RMB678.3 million in 2014, primarily due to (i) the recovery of the global wind turbine blade sector with a 41.3% increase in the global newly added installed capacity from 36.6 GW in 2013 to 51.7 GW in 2014, and (ii) our increased sales efforts to grow our scale and capture market share in the global wind turbine blade sector, as well as in other industries where our end customers operate.
- Revenue derived from Australia decreased by RMB0.3 million, or 50.0%, from RMB0.6 million in 2013 to RMB0.3 million in 2014, primarily due to natural changes in market demand.

Cost of sales

Our total cost of sales increased by RMB167.0 million, or 52.0%, from RMB321.0 million in 2013 to RMB488.0 million in 2014. The increase was primarily due to increases in the cost of raw materials, labour cost, cost of packaging materials, depreciation cost and other costs, the effects of which were partially offset by a decrease in the export-related value-added taxes.

- *Cost of raw materials.* Cost of raw materials increased by RMB152.4 million, or 73.8%, from RMB206.6 million in 2013 to RMB359.0 million in 2014, primarily due to (i) increased volume of

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fiberglass we consumed as a result of our increased sales volume, and (ii) a change in our tax status relating to our product exports. In 2014, our cost of raw materials included value-added taxes arising from our purchases of raw materials which were used to manufacture exported products, whereas our cost of raw materials in 2013 did not include such taxes. In order to benefit from new policies under certain PRC tax regulations issued in 2013 and after considering our historical tax status, we applied for and obtained approval from the relevant tax authorities to be exempt from paying value-added taxes on our exported products starting in February 2014, but as a result we were no longer entitled to a deduction in the value-added taxes payable by us on our purchases of raw materials on the basis that such materials were used to manufacture exported products. Prior to February 2014, we paid value-added taxes on exported products, which were recorded as export-related value-added taxes, and accordingly we were entitled to a deduction in the value-added taxes payable by us on our purchases of raw materials, to the extent such materials were used to manufacture exported products.

- *Depreciation cost.* Depreciation cost increased by RMB1.1 million, or 3.1%, from RMB36.9 million in 2013 to RMB38.0 million in 2014, primarily because (i) we had newly added machines and equipment in operation in 2014, and (ii) certain machines and equipment commenced operation in August 2013, resulting in depreciation cost recorded for the full year of 2014, compared to approximately four months in 2013.
- *Labour cost.* Labour cost increased by RMB13.1 million, or 66.6%, from RMB19.6 million in 2013 to RMB32.7 million in 2014, primarily due to increases in the number of our employees directly involved in the manufacture of our products and the average salary we paid to such employees.
- *Cost of packaging materials.* Cost of packaging materials increased by RMB10.3 million, or 83.2%, from RMB12.3 million in 2013 to RMB22.6 million in 2014, primarily due to (i) increased volume of packaging materials consumed by us as a result of our increased sales volume while the unit cost of packaging materials remained relatively stable and (ii) a change in our tax status relating to our exports of products. In 2014, our cost of packaging materials included value-added taxes arising from our purchases of packaging materials which were used to manufacture exported products, whereas our cost of packaging materials in 2013 did not include such taxes. In order to benefit from new policies under certain PRC tax regulations issued in 2013 and after considering our historical tax status, we applied for and obtained approval from the local tax authorities to be exempt from paying value-added taxes on our exported products starting in February 2014, but as a result we were no longer entitled to a deduction in the value-added taxes payable by us on our purchases of packaging materials on the basis that such materials were used to manufacture exported products. Prior to February 2014, we paid value-added taxes on exported products, which were recorded as export-related value-added taxes, and accordingly we were entitled to a deduction in the value-added taxes payable by us on our purchases of packaging materials, to the extent such materials were used to manufacture exported products.
- *Export-related value-added taxes.* Export-related value-added taxes decreased by RMB29.6 million, or 87.5%, from RMB33.8 million in 2013 to RMB4.2 million in 2014, primarily because we applied for and obtained approval to be exempt from paying value-added taxes on our exported products starting in February 2014. As such, we only paid value-added taxes on our exported products for a short period of time in 2014 before we obtained such approval.
- *Others.* Other costs increased by RMB19.7 million, or 168.4%, from RMB11.7 million in 2013 to RMB31.4 million in 2014, primarily due to increases in ancillary materials consumed and maintenance expenses as a result of our increased sales volume in 2014.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by RMB106.3 million, or 125.9%, from RMB84.4 million in 2013 to RMB190.7 million in 2014. Our gross profit margin increased from 20.8% in 2013 to 28.1% in 2014, primarily due to (i) a decrease in our unit cost of depreciation, principally driven by a higher utilisation rate we achieved in 2014, which were in turn attributable to the strong market demand from the wind turbine blade

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sector in 2014, (ii) a decrease in the unit cost of our raw materials as the purchase agreement with respect to fiberglass we used in 2014 was negotiated around the end of 2013 and we obtained a lower unit purchase price for the fiberglass in light of the challenging market conditions in the fiberglass industry in 2013, whereas the unit purchase price of fiberglass in 2013 was higher as the fiberglass purchase agreement was negotiated around the end of 2012, when the price level of fiberglass remained robust despite the challenging market conditions in the fiberglass industry in 2012, and (iii) a decrease in our export-related value-added taxes, although the positive impact of such decrease on our gross profit margin in 2014 was less significant after taking into account the combination of the changes in our export-related value-added taxes, cost of raw materials and cost of packaging materials as a result of the change in our tax status relating to our exports of products.

Other income

Our other income decreased by RMB10.5 million, or 28.1%, from RMB37.4 million in 2013 to RMB26.9 million in 2014. The decrease was primarily due to (i) a decrease in interest income from a shareholder, primarily due to a lower average balance of amounts due from such shareholder, and (ii) a decrease in bank interest income, primarily because we purchased fiberglass from Zhenshi under its centralised procurement policy mainly by cash, to the extent that we did not settle the relevant purchase price by using bills received from our customers, in 2014, and we did not pledge bank deposits to issue bills accordingly, the effects of which were partially offset by an increase in the average balance of bank deposits pledged by us for use of bills to settle payables to contractors for our construction of facilities and for entering into foreign currency forward contracts in 2014.

Other gains and losses

Other gains decreased by RMB13.9 million, or 27.3%, from RMB50.9 million in 2013 to RMB37.0 million in 2014, primarily due to (i) a loss on financial instruments at FVTPL of RMB17.2 million in 2014, which was principally driven by the depreciation of Renminbi against other currencies at the end of 2014, whereas we recorded a gain on financial instruments at FVTPL of RMB5.8 million in 2013, as a result of the appreciation of Renminbi against other currencies at the end of 2013, and (ii) a decrease in gain on release of financial guarantee contracts relating to the release of guarantees we provided to banks in respect to bank facilities granted to our related parties and a shareholder following the repayment of such bank facilities by the relevant borrowers. The foregoing effects were partially offset by a gain on disposal of prepaid lease payments of RMB11.3 million and a gain on disposal of property, plant and equipment of RMB5.8 million in 2014, primarily relating to the compensation we received from the local government in Tongxiang, Zhejiang province for its expropriation of certain of our land use rights and buildings for city planning purposes and our relocation of machines and equipment associated therewith. For details of such expropriation and the related compensation, see Note 18 of the Accountants' Report in Appendix I to this prospectus.

Selling and distribution expenses

Selling and distribution expenses increased by RMB13.8 million, or 45.7%, from RMB30.2 million in 2013 to RMB44.0 million in 2014. The increase was primarily due to an increase in transportation expenses, principally driven by increased sales to both PRC-based and overseas customers in 2014, and an increase in fees paid to export agents as a result of our increased sales of products to overseas markets in 2014.

Administrative expenses

Administrative expenses increased by RMB2.5 million, or 22.7%, from RMB11.0 million in 2013 to RMB13.5 million in 2014. The increase was primarily due to an increase in salary and welfare expenses as a result of increases in both the number of our administrative staff and the average salaries paid to such staff in 2014, and expenses in connection with our establishment of our subsidiary in Egypt.

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Research expenditure

Research expenditure increased by RMB7.7 million, or 57.9%, from RMB13.3 million in 2013 to RMB21.0 million in 2014. The increase was primarily due to (i) an increase in the cost of materials consumed in research and development activities, principally driven by our more active research and development activities in 2014 with the aim of developing new customers in the wind turbine blade sector and satisfying new technical specifications required by our customers, which was in line with our increased sales volume as substantially all of our products were customised, and (ii) an increase in salary and welfare expenses paid to our research and development staff, principally driven by increases in both the number of our research and development staff and the average salaries paid to such staff in 2014.

Other expenses

Other expenses increased by RMB2.4 million, or 342.9%, from RMB0.7 million in 2013 to RMB3.1 million in 2014. The increase was primarily due to the listing expenses of RMB2.2 million for our proposed Listing on the Hong Kong Stock Exchange, whereas there was no similar expense in 2013.

Finance costs

Finance costs decreased by RMB8.7 million, or 25.4%, from RMB34.2 million in 2013 to RMB25.5 million in 2014. The decrease was primarily due to a decrease in the average balance of our bank borrowings.

Profit before tax

As a result of the aforesaid factors, our profit before tax increased by RMB64.0 million, or 76.6%, from RMB83.5 million in 2013 to RMB147.5 million in 2014.

Income tax expense

Income tax expense increased by RMB10.4 million, or 196.2%, from RMB5.3 million in 2013 to RMB15.7 million in 2014. The increase was primarily due to an increase in profit before tax. Our effective tax rate increased from 6.4% in 2013 to 10.7% in 2014, primarily due to a decrease in income not taxable for tax purposes, as a result of a decrease in our gain on release of financial guarantee contracts in 2014.

Profit for the period

As a result for the above factors, profit for the period increased by RMB53.6 million, or 68.6%, from RMB78.1 million in 2013 to RMB131.7 million in 2014.

Year ended 31 December 2013 compared with year ended 31 December 2012

Revenue

Revenue by products. Our total revenue decreased by RMB35.6 million, or 8.1%, from RMB441.0 million in 2012 to RMB405.4 million in 2013, which was primarily due to decreases in our overall sales volume from 41,430 tonnes in 2012 to 40,127 tonnes in 2013 and the average selling price of our products from RMB10,644 per tonne in 2012 to RMB10,103 per tonne in 2013. In 2013, we recorded decreases in revenue generated from sales of multi-axial fabrics, uni-directional fabrics and woven roving combo mats, the effects of which were partially offset by increases in revenue generated from sales of E/PP compofil fabrics and stitched mats.

- *Multi-axial fabrics.* Revenue derived from sales of multi-axial fabrics decreased by RMB48.1 million, or 14.0%, from RMB344.4 million in 2012 to RMB296.2 million in 2013, primarily due to decreases in the sales volume from 31,402 tonnes in 2012 to 28,960 tonnes in 2013 and the average selling price from RMB10,967 per tonne in 2012 to RMB10,229 per tonne in 2013. The decreases in the sales volume and average selling price of our multi-axial fabrics were primarily due to the slowdown in the demand from our customers in the global wind turbine blade sector, which in turn

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was principally driven by a 91.6% decrease in newly installed capacity in the United States from 13.1 GW in 2012 to 1.1 GW in 2013, as affected by the change in the qualification requirements of the PTC program renewed in January 2013. Due to the more intense competition and challenging market conditions in the wind turbine blade sector, we priced our multi-axial fabrics more competitively in 2013. For details of the impact of the renewal of the PTC program in January 2013, see “— Factors Affecting Our Results of Operations and Financial Condition — Government Support, Regulatory Environment and Economic Conditions Affecting the Development of the Demand from the Global Wind Turbine Blade Sector.”

- *Uni-directional fabrics.* Revenue derived from sales of uni-directional fabrics decreased by RMB2.8 million, or 4.3%, from RMB64.7 million in 2012 to RMB61.9 million in 2013, primarily due to a decrease in the average selling price from RMB9,860 per tonne in 2012 to RMB9,090 per tonne in 2013, the effects of which were partially offset by an increase in the sales volume from 6,558 tonnes in 2012 to 6,810 tonnes in 2013. The decrease in the average selling price of our uni-directional fabrics was primarily because we priced such product more competitively when market demand from the global wind turbine blade sector slowed down in 2013, which was principally driven by a 91.6% decrease in newly installed capacity in the United States from 13.1 GW in 2012 to 1.1 GW in 2013, as affected by the change in the qualification requirements of the PTC program renewed in January 2013. Due to our effective pricing strategy, we achieved a slight increase in the sales volume of uni-directional fabrics in 2013.
- *Woven roving combo mats.* Revenue derived from sales of woven roving combo mats decreased by RMB2.8 million, or 12.7%, from RMB22.4 million in 2012 to RMB19.6 million in 2013, primarily due to decreases in the sales volume from 2,524 tonnes in 2012 to 2,246 tonnes in 2013 and the average selling price from RMB8,880 per tonne in 2012 to RMB8,713 per tonne in 2013. The decreases in the sales volume and average selling price of woven roving combo mats were primarily because (i) we devoted more resources to promote our major products, namely multi-axial fabrics and uni-directional fabrics, to cope with the challenging market conditions in the wind turbine blade sector in 2013 and (ii) the competition for the sales of woven roving combo mats were more intense in 2013, principally driven by the relatively low barriers to entry for such product.
- *Stitched mats.* Revenue derived from sales of stitched mats increased by RMB3.4 million, or 62.8%, from RMB5.4 million in 2012 to RMB8.8 million in 2013, primarily due to increases in the sales volume from 746 tonnes in 2012 to 1,170 tonnes in 2013 and the average selling price from RMB7,238 per tonne in 2012 to RMB7,519 per tonne in 2013. Stitched mats were neither sold to the wind turbine blade sector nor the focus of our business. We usually maintained our customer base and selling price for such products to make similar levels of sales. The increases in our sales volume and average selling price of stitched mats in 2013 were primarily due to natural changes in market demand and conditions from shipping manufacturing and pipeline industries.
- *E/PP compofil fabrics.* Revenue derived from sales of E/PP compofil fabrics increased by RMB14.8 million, or 359.9%, from RMB4.1 million in 2012 to RMB18.9 million in 2013, primarily due to a significant increase in the sales volume from 199 tonnes in 2012 to 941 tonnes in 2013, the effects of which were partially offset by a decrease in the average selling price from RMB20,634 per tonne in 2012 to RMB20,065 per tonne in 2013. The increase in the sales volume of our E/PP compofil fabrics was primarily due to (i) increased market acceptance of such product as a result of our sales efforts and (ii) the fact that we only launched such product in the fourth quarter of 2012. The decrease in the average selling price of our E/PP compofil fabrics was primarily because we were still at the early stage of marketing and promoting such product and priced such product more competitively to promote its applications.

Revenue by application. Our total revenue decreased by RMB35.6 million, or 8.1%, from RMB441.0 million in 2012 to RMB405.4 million in 2013, which was primarily due to decreases in revenue generated from the wind turbine blade sector and revenue generated from other industries. Revenue generated from the wind turbine blade sector, which is the aggregate of sales of products specified in contracts for wind turbine blade sector, decreased by RMB29.5 million, or 8.9%, from RMB331.1 million in 2012 to RMB301.7 million in 2013,

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which was primarily due to decreased market demand from the wind turbine blade sector in 2013 as affected by the change in the qualification requirements of the PTC program renewed in January 2013. Revenue generated from other industries decreased by RMB6.1 million, or 5.6%, from RMB109.8 million in 2012 to RMB103.7 million in 2013, primarily because (i) we devoted more resources to promote our products to customers in the wind turbine blade sector in 2013, and (ii) the competition for sales to customers in other industries were more intense due to the relatively lower barriers to entry.

Revenue by geography. Our total revenue decreased by RMB35.6 million, or 8.1%, from RMB441.0 million in 2012 to RMB405.4 million in 2013, which was primarily due to decreases in revenue derived from Europe, North America, the PRC and Australia, the effects of which were partially offset by increases in revenue derived from Asia (excluding the PRC) and Latin America.

- Revenue derived from Europe, North America, the PRC and Australia decreased, in aggregate, by RMB68.9 million, or 16.7%, from RMB412.1 million in 2012 to RMB343.3 million in 2013, primarily due to the slowdown in the demand from our customers in the global wind turbine blade sector, which was principally driven by a 91.6% decrease in newly added installed capacity in the United States from 13.1 GW in 2012 to 1.1 GW in 2013, as affected by the change in the qualification requirements of the PTC program renewed in January 2013.
- Revenue derived from Asia (excluding the PRC) increased significantly by RMB31.3 million, or 111.9%, from RMB28.0 million in 2012 to RMB59.3 million in 2013, primarily due to increased sales to our related-party customer in Hong Kong as such customer developed a key end-user customer in the wind turbine blade sector in 2013.
- Revenue derived from Latin America increased by RMB2.0 million, or 226.5%, from RMB0.9 million in 2012 to RMB2.9 million in 2013, primarily due to our expansion of customer base and increased sales to existing customers in the non-wind power industries in such region, which was driven principally by our sales efforts.

Cost of sales

Our total cost of sales decreased by RMB15.0 million, or 4.5%, from RMB336.0 million in 2012 to RMB321.0 million in 2013. The decrease was primarily due to decreases across all of the key components of our cost of sales, in particular, the cost of raw materials, export-related value-added taxes and depreciation cost.

- *Cost of raw materials.* Cost of raw materials decreased by RMB2.8 million, or 1.3%, from RMB209.4 million in 2012 to RMB206.6 million in 2013, primarily due to a decreased volume of fiberglass we consumed as a result of our decreased sales volume, the effects of which were partially offset by a slight increase in the unit cost of fiberglass, principally driven by a higher proportion of a specific type of fiberglass consumed in 2013 for the manufacture of E/PP compofil fabrics in line with the increased same volume of E/PP compofil fabrics. Such specific type of fiberglass is more expensive as compared to other types of fiberglass we normally use for the manufacture of our other products.
- *Depreciation cost.* Depreciation cost decreased by RMB1.4 million, or 3.6%, from RMB38.3 million in 2012 to RMB36.9 million in 2013, primarily because the depreciation of a portion of our machines and equipment ended over their respective useful lives, the effects of which were partially offset by depreciation cost recorded on the new machines and equipment we purchased in 2013.
- *Labour cost.* Labour cost remained relatively stable with a slight decrease by RMB0.7 million, or 3.3%, from RMB20.3 million in 2012 to RMB19.6 million in 2013.
- *Cost of packaging materials.* Cost of packaging materials decreased by RMB1.2 million, or 8.4%, from RMB13.5 million in 2012 to RMB12.3 million in 2013, primarily due to a decrease volume of packaging materials consumed by us as a result of our decreased sales volume, while the unit cost of packaging materials remained relatively stable.

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- *Export-related value-added taxes.* Export-related value-added taxes decreased by RMB1.7 million, or 4.8%, from RMB35.5 million in 2012 to RMB33.8 million in 2013, primarily due to a decrease in our sales to the overseas market, which was principally driven by the slowdown in the demand from our customers in the overseas wind turbine blade sector as affected by the change in the qualification requirements of the PTC program renewed in the United States in January 2013.
- *Others.* Other costs decreased by RMB7.4 million, or 38.7%, from RMB19.1 million in 2012 to RMB11.7 million in 2013, primarily due to the write-down of inventories of RMB9.1 million we recorded in 2012 as a result of a batch of products returned by our customers, whereas our write-down of inventories significantly decreased to RMB1.2 million in 2013. For details of the products return, see “Business — Customers, Sales and Marketing — Customer Services — Products Return.”

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by RMB20.6 million, or 19.6%, from RMB105.0 million in 2012 to RMB84.4 million in 2013. Our gross profit margin decreased from 23.8% in 2012 to 20.8% in 2013, primarily due to a decrease in the average selling price of our products from RMB10,644 per tonne in 2012 to RMB10,103 per tonne in 2013, which was principally driven by decreases in the average selling prices of our key products, namely, multi-axial fabrics and uni-directional fabrics, as we priced our products more competitively to cope with the challenging market conditions in the wind turbine blade sector in 2013.

Other income

Our other income increased by RMB11.9 million, or 46.7%, from RMB25.5 million in 2012 to RMB37.4 million in 2013, primarily due to (i) increases in interest income from related parties and a shareholder as a result of higher average balances of amounts due from related parties and a shareholder in 2013 and (ii) an increase in government subsidy, primarily due to a one-off government subsidy we received due to our voluntary participation in the anti-dumping investigation initiated by the European Union in 2011 on fiberglass fabrics and fiberglass imported from China, the effects of which were partially offset by a decrease in our bank interest income. The decrease in our bank interest income in 2013 was primarily due to a decrease in the average balances of bank deposits pledged by us for use of bills to settle payables to China Jushi, as we purchased fiberglass from Zhenshi under its centralised procurement policy from February to December 2013 mainly by cash, to the extent that we did not settle the relevant purchase price by using bills received from our customers, the effects of which were partially offset by bank interest income paid to us on maturity in 2013, which was primarily derived from bank deposits pledged in 2012.

Other gains and losses

Other gains increased by RMB18.6 million, or 57.6%, from RMB32.3 million in 2012 to RMB50.9 million in 2013, primarily due to (i) an increase in gain on release of financial guarantee contracts relating to the release of guarantees we provided to banks in respect to bank facilities granted to our related parties and a shareholder following the repayment of such bank facilities by the relevant borrowers and (ii) a gain on financial instruments at FVTPL of RMB5.8 million, as a result of the appreciation of Renminbi against other currencies at the end of 2013, the effects of which were partially offset by an increase in foreign exchange loss as a result of the fluctuation of the exchange rate between Renminbi and other currencies.

Selling and distribution expenses

Selling and distribution expenses increased by RMB2.9 million, or 10.6%, from RMB27.3 million in 2012 to RMB30.2 million in 2013. The increase was primarily due to an increase in transportation expenses, primarily due to a higher proportion of sales to PRC-based customers, and the one-off transportation expenses we recorded in 2013 in respect of a batch of products returned by a customer. For details of the products return, see “Business — Customers, Sales and Marketing — Customer Services — Products Return.” With respect to our PRC-based customers, we typically record transportation expenses for delivery of products to their designated locations in China. With respect to our overseas customers, we record transportation expenses for delivery of our products to

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Shanghai Port in a majority of circumstances, and to a lesser extent, to overseas ports or locations designated by our customers. Given the close proximity of Shanghai Port to our production facilities in Tongxiang, Zhejiang province, a higher proportion of sales to overseas customers in a given period typically results in lower transportation expenses.

Administrative expenses

Administrative expenses decreased by RMB0.9 million, or 7.6%, from RMB11.9 million in 2012 to RMB11.0 million in 2013. The decrease was primarily due to a decrease in other administrative expenses as a result of legal service fees we incurred in 2012 with respect to our voluntary participation in the anti-dumping investigation initiated by the European Union on fiberglass and fiberglass fabrics imported from China, whereas we did not incur similar legal service fees in 2013. Such anti-dumping investigation was withdrawn by the European Union in 2012.

Research expenditure

Research expenditure decreased by RMB2.0 million, or 13.1%, from RMB15.3 million in 2012 to RMB13.3 million in 2013. The decrease was primarily due to a decrease in our cost of materials consumed because (i) we conducted and completed research and development of E/PP compofil fabrics in 2012 and (ii) we had less research and development activities in 2013 as a result of the slowdown in the demand from customers in the wind turbine blade sector.

Other expenses

Other expenses remained stable at RMB0.7 million in 2012 and 2013.

Finance costs

Finance costs increased by RMB4.1 million, or 13.6%, from RMB30.1 million in 2012 to RMB34.2 million in 2013, primarily due to an increase in the average balance of our bank borrowings.

Profit before tax

As a result of the aforesaid factors, our profit before tax increased by RMB6.0 million, or 7.7%, from RMB77.5 million in 2012 to RMB83.5 million in 2013.

Income tax expense

Income tax expense decreased by RMB0.5 million, or 8.6%, from RMB5.8 million in 2012 to RMB5.3 million in 2013. Our effective tax rate slightly decreased from 7.5% in 2012 to 6.4% in 2013 primarily due to an increase in income not taxable for tax purposes, as a result of an increase in our gain on release of financial guarantee contracts in 2013.

Profit for the year

As a result of the above factors, profit for the year increased by RMB6.5 million, or 9.1%, from RMB71.6 million in 2012 to RMB78.1 million in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Source of Liquidity and Working Capital

We have historically met our working capital and other capital requirements principally from cash generated from operating activities and bank borrowings. As at 30 June 2015, we had cash and cash equivalents of RMB69.8 million, which consisted of cash at bank and on hand and were mainly denominated in Renminbi.

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As at 30 June 2015, we had bank borrowings facilities of RMB633.0 million and USD5.0 million, of which RMB203.0 million and USD4.0 million remained unutilised, respectively.

Taking into account the net proceeds available to us from the Global Offering, our cash and future operating cash flows and our bank borrowings, our Directors are satisfied, after due and careful inquiry, that we have sufficient working capital to meet our working capital requirements for at least the next 12 months from the date of this prospectus.

Cash Flows

The table below sets forth, for the periods indicated, a summary of our consolidated statements of cash flows.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Net cash generated from (used in) operating activities ...	124,147	(35,880)	1,625	12,592	106,436
Net cash generated from (used in) investing activities	(110,064)	(91,156)	110,155	175,088	(2,980)
Net cash generated from (used in) financing activities ...	44,851	35,673	(83,402)	(157,764)	(95,482)
Net increase (decrease) in cash and cash equivalents	58,934	(91,363)	28,378	29,916	7,974
Cash and cash equivalents at the beginning of the year/ period	65,510	124,463	33,412	33,412	61,741
Cash and cash equivalents at the end of the year/ period	124,463	33,412	61,741	63,185	69,797

Net cash generated from operating activities

Our net cash generated from operating activities during the Track Record Period was principally from the receipt of payments from our sales. Our cash used in operating activities during the Track Record Period was principally for the purchases of raw materials, selling and distribution expenses, administrative expenses, research and development expenses and taxes.

We had a net cash generated from operating activities of RMB106.4 million in the six months ended 30 June 2015, primarily resulting from profit before tax of RMB142.8 million, as adjusted to primarily reflect gain on release of financial guarantee contracts of RMB65.3 million, depreciation of property, plant and equipment of RMB24.1 million, finance costs of RMB10.7 million, gain on financial instruments at FVTPL of RMB7.5 million, interest income on loans to a shareholder of RMB2.9 million and the effects of movements in working capital.

Movements in working capital mainly included (i) a decrease in amounts due from shareholders of RMB1.9 million, primarily due to the fact that Zhenshi Group was no longer our shareholder upon the completion of the Reorganisation in April 2015, as a result, the amounts due from Zhenshi Group was included in amounts due from related parties, (ii) a decrease in amounts due from related parties of RMB20.3 million, primarily due to (a) Yushi International's payment of value-added tax for our imported equipments out of our prepayment amount and (b) our partial settlement of amounts due from Zhenshi US, the effects of which were partially offset by the inclusion of amounts due from Zhenshi Group as it became our related party in April 2015, (iii) an increase in trade and other receivables of RMB144.1 million, primarily due to our increased sales in 2015 principally driven by increased market demand for our products from customers in the wind turbine blade sector, (iv) an increase in inventories of RMB15.8 million, primarily reflecting increased finished goods that were scheduled to be delivered to our customers, (v) an increase in bills receivables of RMB2.3 million, primarily because we received bank accepted bills from customers in June 2015, (vi) an increase in bills payables of RMB103.5 million, primarily due to bills payable issued to Jushi Group, China Jushi, Yushi International and

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other independent third parties for the settlement of raw material and services we purchased as a result of our increased revenue as well as our increased use of bank accepted bills to settle the payments to our suppliers after we started purchasing raw materials and packaging materials directly from our suppliers on 1 April 2015, for detailed information, see “Business — Raw Materials, Packaging Materials and Suppliers — Suppliers,” (vii) an increase in amounts due to other related parties of RMB36.2 million, primarily due to our purchase of raw materials from China Jushi Group and transportation services from Yushi International, and (viii) a decrease in amounts due to shareholders of RMB4.7 million primarily due to our settlement of the balance due to Zhenshi Group.

We had a net cash generated from operating activities of RMB1.6 million in 2014, primarily resulting from profit before tax of RMB147.5 million, as adjusted to primarily reflect depreciation of property, plant and equipment of RMB43.8 million, finance costs of RMB25.5 million, interest income on loans to related parties and a shareholder of RMB16.6 million, loss on financial instruments at FVTPL of RMB17.2 million, gain on disposal of prepaid lease payments of RMB11.3 million and the effects of movements in working capital. Movements in working capital mainly included (i) a decrease in amounts due to shareholders of RMB62.8 million, primarily reflecting decreased outstanding balances with respect to our purchases of fiberglass from Zhenshi, (ii) an increase in amounts due from related parties of RMB41.7 million, primarily due to our increased sales to certain related parties in Hong Kong and Spain, (iii) an increase in trade and other receivables of RMB44.6 million, primarily due to our increased sales in 2014 principally driven by increased market demand from customers in the wind turbine blade sector, (iv) an increase in inventories of RMB11.3 million, primarily reflecting increased finished goods which were scheduled to be delivered to our customers in January 2015, and (v) a decrease in bills receivables of RMB9.7 million, primarily because we received a bank accepted bill of a relatively large amount from a customer in December 2013.

We had a net cash used in operating activities of RMB35.9 million in 2013, primarily resulting from profit before tax of RMB83.5 million, as adjusted to primarily reflect depreciation of property, plant and equipment of RMB42.3 million, finance costs of RMB34.2 million, interest income on loans to related parties and a shareholder of RMB23.3 million and the effects of movements in working capital. Movements in working capital mainly included (i) a decrease in bills payables of RMB167.9 million, primarily relating to our use of bills to purchase fiberglass directly from China Jushi in 2012, whereas we purchased fiberglass from Zhenshi from February to December 2013 under Zhenshi’s centralised procurement policy and primarily settled the purchase amounts by cash, to the extent that we did not settle the relevant purchase price by using bills received from our customers, (ii) an increase in amounts due to shareholders of RMB67.4 million, primarily reflecting outstanding balances with respect to our purchases of fiberglass from Zhenshi, whereas we did not incur similar trade related balance in 2012, (iii) a decrease in inventories of RMB23.2 million, primarily reflecting our strict control of inventory of raw materials due to the challenging market conditions in the wind turbine blade sector in 2013, (iv) an increase in amounts due from related parties of RMB21.1 million, primarily reflecting increased sales to our related party in Hong Kong, and (v) an increase in bills receivables of RMB10.7 million, primarily because we received a bank accepted bill of a relatively large amount from a customer in December 2013 and recorded a higher amount of bills receivables as at 31 December 2013.

We had a net cash generated from operating activities of RMB124.1 million in 2012, primarily resulting from profit before tax of RMB77.5 million, as adjusted to primarily reflect depreciation of property, plant and equipment of RMB41.9 million and finance costs of RMB30.1 million and the effects of movements in working capital. Movements in working capital mainly included (i) an increase in bills payables of RMB64.2 million, primarily due to our increased purchases of fiberglass from China Jushi directly in 2012, (ii) an increase in inventories of RMB37.2 million, primarily reflecting a batch of products returned by one customer in December 2012, the details of which were set forth in “Business — Customers, Sales and Marketing — Customer Services — Products Return,” (iii) a decrease in bills receivables of RMB21.7 million, primarily due to our endorsement of certain bank accepted bills received by us to settle payments to our suppliers of raw materials, and (iv) an increase in trade and other receivables of RMB20.5 million, primarily due to our increased sales to customers in 2012.

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Net cash used in investing activities

Our cash generated from investing activities during the Track Record Period mainly consisted of repayments of advances from related parties, a shareholder and an Independent Third Party, withdrawal of pledged bank deposits and interest received from bank, related parties and a shareholder. Our net cash used in investing activities during the Track Record Period mainly consisted of advances to related parties, a shareholder and an Independent Third Party, placement of pledged bank deposits and purchase of machinery and equipment.

We had net cash used in investing activities of RMB3.0 million in the six months ended 30 June 2015, primarily resulting from (i) purchase of property, plant and equipment of RMB94.9 million, (ii) advance to a shareholder of RMB170.7 million, (iii) placement of pledged bank deposit of RMB162.3 million, the effect of which were partially offset by (i) a repayment of RMB370.7 million from a shareholder and (ii) withdrawal of pledged bank deposits of RMB61.3 million.

We had a net cash generated from investing activities of RMB110.2 million in 2014, primarily resulting from (i) repayment of advances from Zhenshi of RMB1,086.1 million, (ii) repayment of advances from related parties of RMB360.3 million and (iii) withdrawal of pledged bank deposits of RMB189.4 million, the effects of which were partially offset by (i) advances of RMB1,107.2 million to Zhenshi, (ii) placement of pledged bank deposits of RMB221.6 million relating to our entering into foreign currency forward contracts and use of bills to settle payables to contractors of our new production facilities in China, (iii) purchase of machinery and equipment of RMB123.3 million to support our production expansion, and (iv) advances of RMB97.6 million to our related parties.

We had a net cash used in investing activities of RMB91.2 million in 2013, primarily resulting from (i) advances of RMB1,289.2 million to Zhenshi, (ii) advances of RMB449.0 million to our related parties, (iii) advances of RMB82.0 million to an Independent Third Party, (iv) placement of pledged bank deposits of RMB20.9 million relating to our use of bills to settle purchase amounts with suppliers, and (v) purchase of machinery and equipment of RMB11.4 million to support our production expansion, the effects of which were partially offset by (i) repayment of advances from Zhenshi of RMB1,110.2 million, (ii) repayment of advances from related parties of RMB354.6 million, (iii) withdrawal of pledged bank deposits of RMB189.6 million, and (iv) repayment of advances from an Independent Third Party of RMB82.0 million.

We had a net cash used in investing activities of RMB110.1 million in 2012, primarily resulting from (i) advances of RMB1,146.7 million to our related parties, (ii) advances of RMB771.2 million to Zhenshi, and (iii) placement of pledged bank deposits of RMB269.5 million relating to our use of bills to settle purchase amounts with suppliers, the effects of which were partially offset by (i) repayment of advances from related parties of RMB1,089.5 million, (ii) repayment of advances from Zhenshi of RMB771.2 million and (iii) withdrawal of pledged bank deposits of RMB206.7 million.

Our PRC Legal Adviser has advised us that according to the PRC Lending General Provisions (貸款通則), our advances to and from related parties, Zhenshi and an Independent Third Party are inter-company loans not permitted under the PRC Lending General Provisions (貸款通則), and a penalty of an amount equal to one to five times of the interest income generated from such lending may be imposed on us as the lender. We received an aggregate of interest income on such non-compliant inter-company loans of RMB11.4 million, RMB23.3 million and RMB16.6 million in 2012, 2013 and 2014, respectively. We do not intend to make similar inter-company advances that are not permitted under the PRC Lending General Provisions (貸款通則) after the Listing. For details of our non-compliant inter-company loans, see “Business — Regulatory Compliance and Legal Proceedings — Non-compliant Inter-Company Loans.”

Net cash used in financing activities

Our net cash generated from financing activities during the Track Record Period mainly consisted of bank borrowings we raised and capital injection by our shareholders. Our net cash used in financing activities during the Track Record Period mainly consisted of repayment of bank borrowings and interest paid.

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We had net cash used in financing activities of RMB95.5 million in the six months ended 30 June 2015, primarily resulting from (i) a RMB515.4 million repayment of bank borrowings, (ii) a RMB100.2 million dividend payment and (iii) the consideration we paid for acquisition of Hengshi Fiberglass of RMB607.1 million, the effects of which were partially offset by (i) our deemed capital contribution of RMB607.1 million, and (ii) RMB531.2 million in new bank borrowings raised.

We had a net cash used in financing activities of RMB83.4 million in 2014, primarily resulting from a RMB921.8 million repayment of bank borrowings and a RMB25.7 million interest payment, the effects of which were partially offset by a RMB830.4 million in new bank borrowings raised and a RMB36.1 million capital injection by our shareholders to support our expansion of operations.

We had a net cash generated from financing activities of RMB35.7 million in 2013, primarily resulting from a RMB672.6 million in new bank borrowing raised, the effects of which were partially offset by a RMB602.3 million repayment of bank borrowings and a RMB34.6 million interest payment.

We had a net cash generated from financing activities of RMB44.9 million in 2012, primarily resulting from a RMB630.7 million in new bank borrowings raised and a RMB42.5 million capital injection by our shareholders to support our expansion of operations, the effects of which were partially offset by repayment of bank borrowings of RMB598.2 million and interest paid of RMB28.7 million.

Capital Expenditures

During the Track Record Period, our capital expenditures mainly related to purchases of properties, machinery and equipment, motor vehicles and furniture and office equipment for our manufacturing and administrative purposes and expenditures for construction in progress relating to our expansion of production capacity in China.

The table below sets forth, for the periods indicated, our capital expenditures.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	92	—	3,206	464
Machinery and equipment	721	1,220	13,449	3,538
Motor vehicles	—	—	96	182
Furniture and office equipment	39	—	305	546
Construction in progress	<u>1,817</u>	<u>12,141</u>	<u>149,561</u>	<u>67,095</u>
Total	<u><u>2,699</u></u>	<u><u>13,361</u></u>	<u><u>166,617</u></u>	<u><u>71,825</u></u>

Our capital expenditures increased from RMB2.7 million in 2012 to RMB13.4 million in 2013 and further to RMB166.6 million in 2014, and our capital expenditures were RMB71.8 million in the six months ended 30 June 2015, primarily due to our construction of new facilities in China and purchases of machines and equipment to expand our production capacity. For details of our production capacity expansion plan in China, see “Business — Production — Future Expansion Plans — Production Capacity Expansion in China.”

We estimate that our capital expenditures for the year ending 31 December 2015 will be RMB157.0 million, which will be primarily used to fund our expansion plans in China and Egypt, the details of which are set forth in “Business — Production — Future Expansion Plans,” and purchases of additional machines and equipment. We intend to finance such capital expenditures with our existing cash and bank balances, cash flow generated from operating activities and proceeds from the Global Offering.

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NET CURRENT ASSETS

The table below sets forth, as at the balance sheet dates indicated, our current assets, current liabilities and net current assets.

	As at 31 December			As at 30 June	As at 31 October
	2012	2013	2014	2015	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current assets					
Inventories	96,497	72,066	82,711	98,315	94,540
Prepaid lease payments	436	436	776	776	776
Trade and other receivables	134,243	138,402	182,487	317,171	379,772
Bills receivables	1,300	12,020	2,335	4,650	23,022
Amounts due from related parties	175,107	290,640	70,128	50,357	19,859
Amounts due from a shareholder	—	179,358	201,930	1	—
Financial assets at fair value through profit or loss ("FVTPL")	—	5,400	—	—	2,600
Pledged bank deposits	168,670	—	32,218	133,173	121,887
Bank balances and cash	124,463	33,412	61,741	69,797	122,104
Total current assets	<u>700,716</u>	<u>731,734</u>	<u>634,326</u>	<u>674,240</u>	<u>764,560</u>
Current liabilities					
Trade and other payables	11,181	6,130	40,919	42,203	84,404
Bills payables	167,902	—	10,465	103,945	155,078
Dividends payable	—	32,979	—	—	—
Amounts due to other related parties	2,261	8,753	6,914	43,169	55,169
Amounts due to shareholders	19	67,453	4,683	509	1,272
Financial liabilities at FVTPL	—	—	15,200	5,460	—
Provisions	51,800	38,300	65,300	—	—
Tax payable	3,043	2,054	8,290	2,405	—
Bank borrowings	441,500	511,750	320,400	430,000	400,000
Total current liabilities	<u>677,706</u>	<u>667,419</u>	<u>472,171</u>	<u>627,691</u>	<u>695,923</u>
Net current assets	<u>23,010</u>	<u>64,315</u>	<u>162,155</u>	<u>46,549</u>	<u>68,637</u>

Our net current assets increased from RMB23.0 million as at 31 December 2012 to RMB64.3 million as at 31 December 2013, primarily due to an increase in our total current assets, which was principally driven by increases in amounts due from related parties and a shareholder, the effects of which were partially offset by decreases in pledged bank deposits and bank balances and cash. Our net current assets increased from RMB64.3 million as at 31 December 2013 to RMB162.2 million as at 31 December 2014, primarily because the decrease in our total current liabilities outpaced the decrease in our total current assets as at 31 December 2014. The decrease in our total current liabilities as at 31 December 2014 was primarily due to decreases in bank borrowings, amounts due to shareholders and dividends payable. Our net current assets decreased from RMB162.2 million as at 31 December 2014 to RMB46.5 million as at 30 June 2015, primarily because the increase in our total current liabilities outpaced the increase in our total current asset as at 30 June 2015. The increase in our total current liabilities was primarily due to increases in our bank borrowings, bills payables and amounts due to related parties as at 30 June 2015, the effects of which were partially offset by a decrease in amounts due to shareholders. The increase in our total current assets was primarily due to an increase in our trade and other receivables and pledged bank deposit, partially offset by a decrease in our amounts due from a shareholder.

Inventory

Our inventory primarily consists of raw materials for the manufacture of our products, work in progress and finished goods. We set our production plan based on sales contracts we have entered into with our customers,

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and accordingly we believe that we effectively managed our inventories during the Track Record Period. As our major supplier of fiberglass, China Jushi, is located in close proximity to our production facilities, we are also able to adjust our procurement of materials according to our production process, taking into account the lead time required for each type of materials, so as to minimize and maintain our inventory of materials at an appropriate level.

The table below sets forth, as at the balance sheet dates indicated, our balance of inventory.

	As at 31 December			Six months ended 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	69,139	31,625	23,221	20,922
Work in progress	3,863	5,334	7,536	9,909
Finished goods	23,495	35,107	51,954	67,484
Total	<u>96,497</u>	<u>72,066</u>	<u>82,711</u>	<u>98,315</u>

Our inventory increased from RMB82.7 million as at 31 December 2014 to RMB98.3 million as at 30 June 2015, primarily reflecting our increased inventory of finished goods as a result of our increased sales, the effects of which were partially offset by a decrease in the inventory of raw materials, primarily because we consumed raw materials more quickly as we expanded our production scale to meet increased demand from our customers in the wind turbine blade sector in the first six months of 2015.

Our inventory increased from RMB72.1 million as at 31 December 2013 to RMB82.7 million as at 31 December 2014, primarily reflecting increased inventory of finished goods which were scheduled to be delivered to our customers in January 2015, the effects of which were partially offset by a decrease in inventory of raw materials, primarily because we consumed raw materials more quickly in line with a larger production scale caused by increased demand from our customers in the wind turbine blade sector in 2014. Our inventory decreased from RMB96.5 million as at 31 December 2012 to RMB72.1 million as at 31 December 2013, primarily reflecting our strict control of inventory of raw materials in light of the challenging market conditions in the wind turbine blade sector in 2013, the effects of which were partially offset by an increase in finished goods at the end of 2013, which were scheduled to be delivered to our customers in the first quarter of 2014.

As at 31 October 2015, we have subsequently sold RMB87.8 million, or 89.3%, of our outstanding inventory as at 30 June 2015.

The table below sets forth, for the periods indicated, the average inventory turnover days.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
Average inventory turnover days ⁽¹⁾	<u>88</u>	<u>95</u>	<u>57</u>	<u>47</u>

Note:

(1) Average inventory turnover days are based on the average balance of inventory divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average inventory turnover days increased from 88 days in 2012 to 95 days in 2013, primarily due to an increased average balance of inventory in 2013 because a batch of our products were returned by one customer in December 2012 and we did not significantly reduce the inventory of such batch of products at the end of 2013. For details of such products return, see “Business — Customers, Sales and Marketing — Customer Services — Products Return.” Our average inventory turnover days decreased from 95 days in 2013 to 57 days in 2014 and further to 47 days in the six months ended 30 June 2015, primarily due to our improved inventory control driven by increased market demand for our products from the wind turbine blade sector.

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Trade and Other Receivables

Our trade and other receivables consist of (i) trade receivables, primarily representing the balances due from our customers that are independent third parties, less allowance for doubtful debts, (ii) prepayments, primarily representing payments of transportation expenses, insurance and purchases of ancillary materials, (iii) other taxes recoverable, primarily representing the deductible value-added taxes arising from our purchases of machines and equipment from overseas countries, (iv) deposits, primarily relating to our purchases of machinery and equipment and (v) other miscellaneous receivables.

The table below sets forth, as at the balance sheet dates indicated, our trade and other receivables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	140,206	148,393	188,467	324,174
Less: allowance for doubtful debts	(12,500)	(10,800)	(10,100)	(17,500)
	<u>127,706</u>	<u>137,593</u>	<u>178,367</u>	<u>306,674</u>
Prepayments	571	153	856	1,412
Other taxes recoverable	4,951	—	2,253	3,986
Deposits	185	—	406	1,821
Deferred expenses related to listing expenses				2,800
Other receivables	830	656	605	478
	<u>6,537</u>	<u>809</u>	<u>4,120</u>	<u>10,497</u>
Total	<u><u>134,243</u></u>	<u><u>138,402</u></u>	<u><u>182,487</u></u>	<u><u>317,171</u></u>

Our trade and other receivables increased from RMB182.5 million as at 31 December 2014 to RMB317.2 million as at 30 June 2015, primarily reflecting (i) an increase in our sales and (ii) the higher percentage of our sales to PRC-based customers in the first six months of 2015 as compared with 2014 and the longer credit periods we granted to our PRC-based customers as compared with our overseas customers. Our trade and other receivables increased from RMB138.4 million as at 31 December 2013 to RMB182.5 million as at 31 December 2014, primarily reflecting (i) an increase in trade receivables with independent third parties in line with our increased sales in 2014, principally driven by increased market demand from customers in the wind turbine blade sector, and (ii) an increase in other taxes recoverable, primarily reflecting the deductible value-added taxes arising from our purchases of machines and equipment from overseas countries in 2014, whereas the similar deductible taxes were fully deducted before the end of 2013. Our trade and other receivables increased from RMB134.2 million as at 31 December 2012 to RMB138.4 million as at 31 December 2013, primarily reflecting an increase in trade receivables with independent third parties as we granted longer credit periods to certain customers in light of the challenging market conditions in the wind turbine blade sector in 2013, in order to maintain good relations with our customers, the effects of which were partially offset by a decrease in other taxes recoverable, primarily reflecting the deductible value-added taxes arising from our purchases of machines and equipment from overseas countries in 2012, whereas the similar deductible taxes were fully deducted before the end of 2013.

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The table below sets forth, as at the balance sheet dates indicated, an aged analysis of our trade receivables, net of allowance of doubtful debts, based on the respective invoice dates.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	48,725	82,829	125,014	197,277
91 to 180 days	25,938	19,070	33,747	91,485
181 days to 1 year	28,275	17,913	2,864	9,831
1 to 2 years	24,768	9,297	5,992	1,591
Over 2 years	—	8,484	10,750	6,490
Total	<u>127,706</u>	<u>137,593</u>	<u>178,367</u>	<u>306,674</u>

We typically offer a credit period of 30 to 90 days to our customers, which may be extended in practice to more than 90 days on a case-by-case basis, depending on the reputation, historical credibility and our relationship with the relevant customers. In particular, our PRC customers are normally accustomed to longer credit periods. For details of our credit policy to customers, see “Business — Customers, Sales and Marketing — Our Customers.”

As at 31 October 2015, we have subsequently settled RMB187.0 million, or 58.7%, of our outstanding trade and other receivables as at 30 June 2015.

The table below sets forth, as at the balance sheet dates indicated, movements in the allowance for doubtful debts.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at the beginning of year	10,000	12,500	10,800	10,100
Allowance for doubtful debts	2,500	—	508	8,139
Reversal of allowance for doubtful debts	—	(1,700)	—	—
Bad debts written off	—	—	(1,208)	(739)
Balance at the end of year	<u>12,500</u>	<u>10,800</u>	<u>10,100</u>	<u>17,500</u>

Our management monitors the recoverability of overdue trade receivables, and when there is objective evidence that we may not be able to collect any overdue trade receivables, we provide for impairment of these trade receivables. We recorded allowance for doubtful debts of RMB12.5 million, RMB10.8 million, RMB10.1 million and RMB17.5 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively, primarily representing overdue amounts from customers that experienced financial difficulties.

The table below sets forth, as at the balance sheet dates indicated, an aged analysis of our trade receivables that were past due but not individually or collectively considered to be impaired.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	7,335	10,579	17,812	8,430
91 to 181 days	25,938	19,070	33,747	91,485
181 days to 1 year	28,275	17,913	2,864	9,831
1 to 2 years	24,768	9,297	5,992	1,591
Over 2 years	—	8,484	10,750	6,490
Total	<u>86,316</u>	<u>65,343</u>	<u>71,165</u>	<u>117,827</u>

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Trade receivables that were past due but not impaired relate to a number of customers that have a good track record with our Group. The amount of our trade receivables by the end of 2014 was approximately RMB188.5 million, of which approximately RMB50.5 million was related to our overseas customers and approximately RMB138.0 million was related to our PRC customers. After deducting the provision for bad debts of RMB10.1 million, the amount of trade receivables was approximately RMB178.4 million. The amount of overdue trade receivables was approximately RMB71.2 million, of which approximately RMB3.1 million was related to our overseas customers and approximately RMB68.1 million was related to our PRC customers.

Based on the past experience, we believe that our overseas customers normally make payments according to the schedule as agreed in the sales contracts while certain PRC customers may make payments behind the agreed schedule in the sales contracts. We normally grant a credit term of 30 to 90 days to our PRC customers. In 2012, 2013, 2014 and the six months ended 30 June 2015, the average number of trade receivables turnover days for our PRC customers was 217, 298, 168 and 134 days, respectively. Although certain PRC customers made payments to us behind the agreed schedule, most of the trade receivables from the PRC customers can still be fully recovered by us.

By 30 June 2015, we had recovered approximately RMB166.8 million for our trade receivables at the end of 2014 and approximately RMB21.7 million had not been recovered, of which approximately RMB0.5 million was related to our overseas customers and approximately RMB21.2 million was related to our PRC customers. We had made bad debt provisions for trade receivables that have risks of becoming unrecoverable.

Our accounting policies for making bad debt provisions include: (1) conducting impairment test and making bad debt provisions individually on trade receivables with significant amounts; and (2) combining trade receivables on which bad debt provisions are not made individually into other trade receivables and conducting impairment test and making bad debt provisions on a collectability basis. By the end of 2014, the doubtful debts on trade receivables which were individually impaired was RMB7.8 million and the amount of bad debt provisions that we had evaluated on a collectability basis was approximately RMB2.3 million.

By 30 June 2015, approximately RMB15.0 million of the trade receivables that were overdue was related to a large-scale state-owned enterprise. We filed a lawsuit against this customer and obtained a favourable court judgment in 2014, according to which this customer had agreed to pay off all the overdue payment by June 2016. We had made a bad debt provision of RMB4.7 million out of prudence consideration as of 31 December 2014.

Except for the above, the amount of trade receivables as of 31 December 2014 that had not been recovered by us by 30 June 2015 was RMB6.7 million and we had made bad debt provision of RMB5.4 million as of 31 December 2014.

Based on the above reasons, our management believes that our bad debt provisions at the end of 2014 were sufficient. Further details in relation to our trade and bills receivables are set out in Note 23 to the Accountants' Report as set out in Appendix I to this prospectus.

The table below sets forth, for the periods indicated, the average trade receivables turnover days.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	Average trade receivables turnover days ⁽¹⁾	<u>52</u>	<u>118</u>	<u>84</u>

Note:

- (1) Average trade receivables turnover days are based on the average balance of trade receivables divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average trade receivables turnover days increased from 52 days in 2012 to 118 days in 2013, primarily due to longer credit periods we granted to certain customers in light of the challenging market conditions in the

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wind turbine blade sector in 2013, in order to maintain good relations with our customers. Our average trade receivables turnover days decreased from 118 days in 2013 to 84 days in 2014, primarily reflecting the more active settlement by our customers in line with the recovery of market conditions in the wind turbine blade sector in 2014. Our average trade receivables turnover days increased from 84 days in 2014 to 87 days in the six months ended 30 June 2015, primarily because our sales to PRC-based customers, as percentage to our total sales, increased in the first six months of 2015 as compared with 2014, and our PRC-based customers generally have longer credit periods as compared with our overseas customers.

Bills Receivables

Our bills receivables primarily represent bank accepted bills received from our customers in lieu of cash payments. During the Track Record Period, our overseas customers typically settled their purchase prices by wire transfer, and our PRC-based customers typically settled their purchase prices with us by bank accepted bills with a maturity of one to six months.

With respect to bank accepted bills we received from our customers, we had endorsed certain bills to settle our trade payables to China Jushi, Zhenshi and independent third party suppliers. As at 31 December 2012, 2013 and 2014 and 30 June 2015, the carrying amount of our endorsed but undue bills was RMB18.3 million, RMB51.9 million, RMB148.8 million and RMB166.4 million, respectively. Our Directors are of the view that we have transferred substantially all risks and rewards relating to the relevant bills. As such, we derecognised the full carrying amounts of such bills and the associated payables. As at 31 December 2012, 2013 and 2014 and 30 June 2015, we did not recognise any gain or loss on the date of transfer of the derecognised bills.

As at 31 December 2012, 2013 and 2014 and 30 June 2015, we recorded bills receivables of RMB1.3 million, RMB12.0 million, RMB2.3 million and RMB4.7 million, respectively. Our bills receivables as at 31 December 2013 were relatively higher, primarily because we received a bank accepted bill of a relatively large amount from a customer in December 2013. Our bills receivables as at 30 June 2015 was higher as compared with 31 December 2014 primarily because we received bank accepted bills at the end of June 2015.

The table below sets forth, as at the balance sheet dates indicated, an aged analysis of our bills receivables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	300	5,750	—	3,550
91 to 180 days	1,000	6,270	2,335	1,100
Total	<u>1,300</u>	<u>12,020</u>	<u>2,335</u>	<u>4,650</u>

Trade and Other Payables

Our trade and other payables consist of (i) trade payables to independent third party suppliers and service providers, primarily relating to our purchases of raw materials and packaging materials, construction of production facilities and transportation of products, (ii) deposits received from customers, (iii) interest payable to banks with respect to our bank borrowings, (iv) other taxes payables, (v) payables for our purchase of machinery and equipment, (vi) retention payable, representing quality assurance fees paid by our contractors for their construction of our new facilities in China, and (vii) other miscellaneous payables.

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The table below sets forth, as at the balance sheet dates indicated, our trade and other payables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	4,219	118	389	10,989
Deposits received from customers	929	1,909	2,673	4,158
Interest payables	1,521	1,118	931	800
Other taxes payable	1,574	825	194	1,258
Payables for purchase of property, plant and equipment	990	977	32,712	12,465
Payroll payable				809
Retention payable	146	186	471	1,691
Accrued listing expense				6,044
Other payables	1,802	997	3,549	3,989
Total	<u>11,181</u>	<u>6,130</u>	<u>40,919</u>	<u>42,203</u>

Our trade and other payables increased slightly from RMB40.9 million as at 31 December 2014 to RMB42.2 million as at 30 June 2015, primarily reflecting an increase in our trade payables relating to our purchase of raw materials from independent third party suppliers, as well as an increase in our accrued listing expenses in 2015, the effect of which was partially offset by a decrease in our payables for the purchase of property, plant and equipment.

Our trade and other payables increased from RMB6.1 million as at 31 December 2013 to RMB40.9 million as at 31 December 2014, primarily reflecting an increase in payables for purchase of property, plant and equipment relating to our increased purchases of machinery and equipment to expand our production capacity in China. Our trade and other payables decreased from RMB11.2 million as at 31 December 2012 to RMB6.1 million as at 31 December 2013, primarily because we purchased raw materials (other than fiberglass) and packaging materials from independent third parties in 2012, whereas most of such purchases were made through Zhenshi in 2013 under Zhenshi's centralised procurement policy, thereby resulting in a decreased trade payables to independent third parties as at 31 December 2013.

The table below sets forth, as at the balance sheet dates indicated, an aged analysis of trade payables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	3,452	10	293	9,681
91 to 181 days	682	6	13	1,292
181 days to 1 year	—	17	9	3
1 to 2 years	10	—	62	—
Over 2 years	75	85	12	13
Total	<u>4,219</u>	<u>118</u>	<u>389</u>	<u>10,989</u>

Our trade payables are non-interest-bearing. During the Track Record Period, we were typically granted credit terms ranging from 30 to 90 days from our suppliers.

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The table below sets forth, for the periods indicated, the average trade payables turnover days.

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
	Average trade payables turnover days ⁽¹⁾	<u>5</u>	<u>2</u>	<u>0</u>

Note:

(1) Average trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period.

Our average trade payable turnover days was low during the Track Record Period, primarily due to our low trade payables to Independent Third Parties as we purchased fiberglass from China Jushi, a related party, directly or indirectly through Zhenshi, a shareholder during the Track Record Period. Assuming our amounts due to related parties and a shareholder are also considered as trade payables to the extent they are of trade nature, our average trade payable turnover days in 2012, 2013 and 2014 and the six months ended 30 June 2015 would be 9 days, 46 days, 32 days and 17 days, respectively. Such average trade payable turnover days increased from 9 days in 2012 to 46 days in 2013, primarily because we delayed our settlement of payables to Zhenshi in December 2013, which were subsequently settled in January and February 2014. Such average trade payable turnover days decreased from 46 days in 2013 to 32 days in 2014, primarily because we have settled our trade payables to Zhenshi more actively since the end of 2013. Such average trade payable turnover days further decreased from 32 days in 2014 to 17 days in the six months ended 30 June 2015, primarily because we reduced our payables for the purchase of property, plant and equipment.

Bills Payables

During the Track Record Period, our bills payable primarily related to (i) bills issued to China Jushi, a related party, and independent third party suppliers for settlement of purchases of fiberglass and other raw materials and packaging materials and (ii) bills issued to contractors to settle payables for our construction of facilities to expand our production capacity in China. As we only made direct purchases of raw materials and packaging materials from the relevant suppliers in 2012 and January 2013 and purchased such materials from Zhenshi under its centralised procurement policy starting in February 2013, we recorded bills payables of RMB167.9 million and nil as at 31 December 2012 and 2013, respectively. Our bills payables of RMB10.5 million as at 31 December 2014 primarily related to bills issued to contractors to settle payables for our construction of facilities to expand our production capacity in China. Our bills payables increased to RMB103.9 million as at 30 June 2015 primarily related to bills issued to Jushi Group, China Jushi, Yushi International and other independent third party suppliers for the settlement of raw material and services which we purchased as a result of our increased revenue as well as our increased use of bank accepted bills to settle the payments to our suppliers after we started purchasing raw materials and packaging materials directly from our suppliers on 1 April 2015. For detailed information, see “Business — Raw Materials, Packaging Materials and Suppliers — Suppliers.”

The table below sets forth, as at the balance sheet dates indicated, an aged analysis of bill payables.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	53,000	—	—	47,933
31 to 60 days	28,700	—	4,445	35,476
61 to 90 days	18,500	—	4,800	18,578
91 to 180 days	67,702	—	1,220	1,958
Total	<u>167,902</u>	<u>—</u>	<u>10,465</u>	<u>103,945</u>

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Pledged Bank Deposits

Our pledged bank deposits are required primarily as guarantee for (i) use of bank accepted bills to settle payables to China Jushi, a related party, and independent third party suppliers and (ii) entering into foreign currency forward contracts in 2014. Our pledged bank deposits were RMB168.7 million, nil, RMB32.2 million and RMB133.2 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. We did not record any pledged bank deposits as at 31 December 2013, primarily because (i) we purchased raw materials and packaging materials from Zhenshi under its centralised procurement policy, and primarily settled the purchase amounts by cash, to the extent that we did not settle the relevant purchase price by using bills received from our customers, and (ii) we did not pledge bank deposits for entering into foreign currency forward contracts in 2013.

Provisions

During the Track Record Period, we primarily made provisions for financial guarantees we provided to banks in respect to bank facilities granted to our related parties and a shareholder. We made provisions of RMB51.8 million, RMB38.3 million, RMB65.3 million and nil as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. All of the guarantees provided by us in respect to bank facilities granted to our related parties and a shareholder had been released as at the Latest Practicable Date. We did not make any provisions as at 30 June 2015, as all of our financial guarantee contracts were released in full during the six months ended 30 June 2015.

Amounts Due from (to) Related Parties and Shareholders

Amounts Due from Related Parties

As at 31 December 2012, 2013 and 2014 and 30 June 2015, our amounts due from related parties were RMB175.1 million, RMB290.6 million, RMB70.1 million and RMB50.4 million, respectively.

The following table sets forth, as at the balance sheet dates indicated, a breakdown of our amounts due from related parties.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	7,321	28,436	70,128	49,848
Non-trade related	167,786	262,204	—	509
Total	175,107	290,640	70,128	50,357

During the Track Record Period, our trade related amounts due from related parties primarily related to our sales of products to certain related-party trading companies such as Zhenshi Group (HK) Sinosia Technology Company Limited, Zhenshi Spain S.A. and Zhenshi US, and sales of products to customers such as Dongguan Dongshi New Material Development Co., Ltd. (東莞東石新材料開發有限公司) and Zhenshi Group Huamei Composite Materials Co., Ltd. (振石集團華美複合新材料有限公司). During the Track Record Period, our non-trade related amounts due from related parties primarily represented unsecured, interest bearing advances we made to related parties. The effective interest rates on our non-trade related amounts due from related parties ranged other than shareholders from 6.56% to 8.02% in 2012, from 6.36% to 7.37% in 2013, nil in 2014 and nil in the six months ended 30 June 2015, respectively. For details, see Note 25(A) to the Accountants' Report as set out in Appendix I to this prospectus.

Our amounts due from related parties increased from RMB175.1 million as at 31 December 2012 to RMB290.6 million as at 31 December 2013, primarily due to increased advances we made to certain related parties. Our amounts due from related parties decreased from RMB290.6 million as at 31 December 2013 to RMB70.1 million as at 31 December 2014, primarily due to a significant decrease in non-trade amounts due from related parties as a result of our efforts to settle all outstanding balances prior to the Listing, the effects of which were partially offset by an increase in trade-related amounts due from related parties as a result of our increased

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sales to certain related parties in Hong Kong and Spain. Our amounts due from related parties decreased from RMB70.1 million as at 31 December 2014 to RMB50.4 million as at 30 June 2015, primarily due to (i) Yushi International's payment of value-added tax for our imported equipments out of our prepayment amount and (ii) our partial settlement of amounts due from Zhenshi US, the effects of which were partially offset by the inclusion of amounts due to Zhenshi Group as it became our related party in April 2015.

Amounts Due from Shareholders

As at 31 December 2012, 2013 and 2014, our amounts due from shareholders were nil, RMB179.4 million, RMB201.9 million, respectively. As at 30 June 2015, our amounts due from shareholders were RMB1,000.

The following table sets forth, as at the balance sheet dates indicated, a breakdown of our amounts due from shareholders.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	—	408	1,930	—
Non-trade related	—	178,950	200,000	1
Total	<u>—</u>	<u>179,358</u>	<u>201,930</u>	<u>1</u>

During the Track Record Period, our trade related amounts due from shareholders represented amounts due from Zhenshi in connection with its procurement of fiberglass fabrics from us for uses by other companies under its control according to its centralised procurement policy. Our non-trade related amounts due from shareholders represented unsecured, interest-bearing advances we made to Zhenshi. We did not record any amounts due from shareholders in 2012 and the six months ended 30 June 2015. For details, see Note 25(B) to the Accountants' Report as set out in Appendix I to this prospectus.

Amounts Due to Related Parties

As at 31 December 2012, 2013 and 2014 and 30 June 2015, our amounts due to related parties were RMB2.3 million, RMB8.8 million, RMB6.9 million and RMB43.2 million, respectively.

The following table sets forth, as at the balance sheet dates indicated, a breakdown of our amounts due to related parties.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	2,241	8,733	6,338	42,573
Non-trade related	20	20	576	596
Total	<u>2,261</u>	<u>8,753</u>	<u>6,914</u>	<u>43,169</u>

During the Track Record Period, our trade related amounts due to related parties primarily related to (i) our purchase of raw materials from China Jushi and (ii) the engagement of Yushi International and Shanghai Tianshi International Logistics Co., Ltd. (上海天石國際貨運代理有限公司) for transportation of our products and (iii) prepaid rent we received from China Jushi in connection with our leasing of unutilised factories and warehouses to it. During the Track Record Period, our non-trade related amounts due to related parties primarily represented unsecured, interest free advances made by a related party to us. For details, see Note 25(C) to the Accountants' Report as set out in Appendix I to this prospectus.

Our amounts due to related parties increased from RMB2.3 million as at 31 December 2012 to RMB8.8 million as at 31 December 2013, primarily due to increased transportation costs we incurred in 2013 as a result of

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a higher proportion of sales to PRC-based customers and the one-off transportation expenses we recorded in respect of products returned in 2013. Our amounts due to related parties remained relatively stable as at 31 December 2013 and 2014. Our amounts due to related parties increased from RMB6.9 million as at 31 December 2014 to RMB43.2 million as at 30 June 2015, primarily because we purchased raw materials from China Jushi, our related party, in the first six months of 2015, as well as our increased amounts due to other related parties as a result of our higher transportation expenses in the first six months of 2015.

Amounts Due to Shareholders

As at 31 December 2012, 2013 and 2014 and 30 June 2015, our amounts due to shareholders were RMB19,000, RMB67.5 million, RMB4.7 million and RMB0.5 million, respectively.

The following table sets forth, as at the balance sheet dates indicated, a breakdown of our amounts due to shareholders.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	—	67,435	4,664	—
Non-trade related	19	18	19	509
Total	<u>19</u>	<u>67,453</u>	<u>4,683</u>	<u>509</u>

During the Track Record Period, our trade related amounts due to shareholders represented amounts due to Zhenshi in connection with our purchase of raw materials and packaging materials from it from February to December 2013 and in 2014 under its centralised procurement policy. We did not make similar purchases in 2012, and have ceased making similar purchases from Zhenshi since 1 April 2015. As a result, we did not have any trade related amounts due to shareholders as at 30 June 2015. During the Track Record Period, we normally settled our trade related payables to Zhenshi on a monthly basis. Our amounts due to shareholders as at 31 December 2013 were higher as compared to 31 December 2012 and 2014, primarily because we delayed our settlement of payables to Zhenshi in December 2013, which were subsequently settled in January and February 2014. During the Track Record Period, our non-trade related amounts due to shareholders represented unsecured, interest free advances from Fame Success Investments Limited (泛成投資有限公司). For details, see Note 25(D) to the Accountants' Report as set out in Appendix I to this prospectus.

Our PRC Legal Adviser has advised us that our advances to and from related parties and shareholders are inter-company loans not permitted under the PRC Lending General Provisions (貸款通則). For details of our non-compliant inter-company loans, see “Business — Regulatory Compliance and Legal Proceedings — Non-compliant Inter-Company Loans.” As at the Latest Practicable Date, our non-trade related balances with related parties and shareholders had been fully settled.

INDEBTEDNESS

During the Track Record Period, our indebtedness principally consisted of bank borrowings, amounts due to other related parties, amounts due to shareholders and contingent liabilities.

	As at 31 December			As at 30 June	As at 31 October
	2012	2013	2014	2015	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	441,500	511,750	420,299	436,114	406,350
Amounts due to other related parties	20	20	576	596	619
Amounts due to shareholders	19	18	19	509	1,273
Total	<u>441,539</u>	<u>511,788</u>	<u>420,894</u>	<u>437,219</u>	<u>408,242</u>

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During the Track Record Period, substantially all of our bank borrowings were denominated in Renminbi, save for a small portion of bank borrowings that was denominated in the U.S. dollar with a balance equivalent to RMB6.1 million as at 30 June 2015. As at 31 December 2012 and 2013, we had bank borrowings of RMB441.5 million and RMB511.8 million, respectively, which were all due within one year or less after the respective drawdown dates. As at 31 December 2014, we had bank borrowings of RMB420.3 million, of which RMB320.4 million were due within one year after the respective drawdown dates, and RMB99.9 million were due within five years after the respective drawdown dates. As at 30 June 2015, we had bank borrowings of RMB436.1 million, of which RMB430.0 million were due within one year after the respective drawdown dates, and RMB6.1 million were due within five years after the respective drawdown dates.

Our bank borrowings carried variable interest rates from 6.90% to 7.54% and fixed interest rates from 5.60% to 6.95% in 2012, variable interest rate from 6.00% to 6.60% and fixed interest rates from 5.88% to 6.60% in 2013, and variable interest rates from 3.13% to 6.72% and fixed interest rates from 5.04% to 6.78% in 2014, respectively. Our bank borrowings carried variable interest rates from 2.59% to 5.35% and fixed interest rates from 5.35% to 5.36% for the six months ended 30 June 2015.

During the Track Record Period, a portion of our bank borrowings were secured by certain property, plant and equipment, land use rights and trade receivables with an aggregate carrying amount of RMB135.9 million, RMB142.3 million, RMB103.4 million and RMB100.5 million as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively, and the remaining bank loans were guaranteed by certain related parties. For details, see Notes 31 and 37 to the Accountants' Report as set out in Appendix I to this prospectus. All the guarantees provided by our related parties and a shareholder to us will be released before the Listing.

During the Track Record Period, the proceeds of our bank borrowings were mainly used to pay for purchases of raw materials and machinery and equipment, and construction of new facilities for expansion of our operations. These bank borrowings contained borrower's undertakings customary for transactions of a similar type and nature. Our borrowing subsidiaries are required, under the respective loan agreements, to repay principal and interest in accordance with the stipulated timelines. In addition, our borrowing subsidiaries are typically restricted from engaging in major corporate transactions, such as incurrence of substantial indebtedness, mergers and consolidations, disposal of substantial assets, reorganisation or restructurings without prior consent of or notification to the lenders. Some loan agreements contain cross acceleration provisions, which give the lending banks the right to demand immediate repayment of principal and unpaid interest if our borrowing subsidiaries default under other loans granted by the same lenders. During the Track Record Period, we did not strictly comply with some bank loan covenants with respect to uses of the relevant loans. According to interviews with the relevant banks in May 2015, they will not take actions against us. Our PRC Legal Adviser is of the view that no criminal or administrative penalties will be imposed on us under applicable PRC laws, and given that the relevant loans have been fully repaid, the impact of the breach of such covenants on our Group is not material. We are not aware of any incident involving our Company or any of our borrowing subsidiaries not having complied with undertakings during the Track Record Period and as at the Latest Practicable Date, under our bank borrowings, which may materially adversely affect our ability to undertake additional debt or equity financing.

As at 31 October 2015, we had bank loan facilities of RMB633.0 million and USD5.0 million, of which RMB164.5 million and USD4.0 million remained unutilised, respectively. Our Directors confirmed that other than as disclosed in the prospectus there has not been any material change in our indebtedness since 31 October 2015 up to the date of this prospectus.

Statement of indebtedness

As at the close of business on 31 October 2015, being the latest practicable date for the purpose of liquidity disclosure in this prospectus, we had outstanding indebtedness totalling RMB408.2 million, consisting of the following (i) total bank borrowings of RMB406.3 million, including an unguaranteed bank borrowing of RMB220.0 million which was secured by the Group's land and buildings and unguaranteed and unsecured bank borrowings of RMB186.3 million, (ii) unguaranteed and unsecured amounts due to other related parties of RMB0.6 million and (iii) unguaranteed and unsecured amounts due to shareholders of RMB1.3 million.

In addition, as at 31 October 2015 our Group also has disputes arising from a legal proceeding in Spain which are jointly initiated by China Jushi, supplier of the Group, and Hengshi Fiberglass on 15 May 2015 against

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an overseas fiberglass manufacturer (the “defendant”) and seek an order that (i) the defendant’s patent on one particular type of fiberglass is invalid in Spain, and (ii) even if such patent is valid the particular type of fiberglass manufactured by China Jushi does not infringe such patent of the defendant.

Save as disclosed above, and apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 October 2015, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities.

RELATED PARTY TRANSACTIONS

For a discussion of our related party transactions, see “— Net Current Assets — Amounts Due from (to) Related Parties and Shareholders,” “Business — Raw Materials, Packaging Materials and Suppliers — Purchases of Fiberglass from China Jushi,” and Notes 25 and 41 to the Accountants’ Report as set out in Appendix I. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis. As at the Latest Practicable Date, all of our non-trade balances with and guarantees provided by us to related parties and a shareholder had been settled and released. In addition, all the guarantees provided by our related parties to us and a shareholder will be released before the Listing. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results not reflective in the Track Record Period.

COMMITMENTS

Capital Commitments

Our capital commitments during the Track Record Period primarily related to our purchase of machinery and equipment for our production capacity expansion in China and Egypt.

The table below sets forth, as at the balance sheet dates indicated, our capital commitments.

	As at 31 December			As at
	2012	2013	2014	30 June
	RMB’000	RMB’000	RMB’000	RMB’000
Capital expenditure in respect of acquisition of property, plant and equipment and construction in progress				
— Authorised but not contracted for	—	—	5,819	22,083
— Contracted for but not provided for	<u>9,262</u>	<u>27,029</u>	<u>47,758</u>	<u>70,087</u>

Our capital commitment increased from RMB9.3 million as at 31 December 2012 to RMB27.0 million as at 31 December 2013, primarily reflecting our increased purchase of machinery and equipment to expand our production capacity in China. Our capital commitment further increased from RMB27.0 million as at 31 December 2013 to RMB53.6 million as at 31 December 2014, primarily reflecting our increased purchase of machinery and equipment to expand our production capacity in Egypt and China. Our capital commitment further increased from RMB53.6 million as at 31 December 2014 to RMB92.2 million as at 30 June 2015, primarily due to our purchase of new equipments.

Operating Lease Commitments

In 2014, we leased certain properties under operating lease arrangements in Egypt with a lease term of five years to build our production facilities.

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The table below sets forth, as at the balance sheet dates indicated, our total future minimum lease payments under non-cancellable operating leases that are payable.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	—	820	790
In the second to fifth years, inclusive	—	—	2,397	1,936
Total	<u>—</u>	<u>—</u>	<u>3,217</u>	<u>2,726</u>

CONTINGENT LIABILITIES

Our contingent liabilities during the Track Record Period primarily related to guarantees provided by us to banks in respect of bank facilities granted to certain related parties and a shareholder. All of such guarantees had been released as at the Latest Practicable Date.

The table below sets forth, as at the balance sheet dates indicated, our contingent liabilities.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees provided to banks in respect of banking facilities granted to				
- Tongxiang Zhongxin Industrial Co., Ltd. (桐鄉市中鑫實業有限公司)	22,000	22,000	22,000	—
- Huamei	54,000	—	—	—
- Zhenshi	1,057,428	845,242	1,118,000	—
Total guaranteed amounts	<u>1,133,428</u>	<u>867,242</u>	<u>1,140,000</u>	—
Less: amounts provided as financial guarantee obligations	<u>51,800</u>	<u>47,600</u>	<u>65,300</u>	—
Total	<u>1,081,628</u>	<u>819,642</u>	<u>1,074,700</u>	—

Except for the above, as at 31 December 2012, 2013 and 2014 and 30 June 2015, we did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or guarantees or other material contingent liabilities. We confirm that as at the Latest Practicable Date there have been no material changes to our contingent liabilities.

As at 31 October 2015, we also have contingent liabilities arising from a legal proceeding in Spain which are jointly initiated by China Jushi, supplier of the Group, and Hengshi Fiberglass on 15 May 2015 against an overseas fiberglass manufacturer (the “**defendant**”) to seek an order that (i) the defendant’s patent on one particular type of fiberglass is invalid in Spain, and (ii) even if such patent is valid the particular type of fiberglass manufactured by China Jushi does not infringe such patent of the defendant. More details were set forth in “Risk Factors — Risks Relating to Our Group — The legal proceedings jointly initiated by China Jushi and us against an overseas fiberglass manufacturer in Spain are subject to uncertainties.”

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we did not enter into any off-balance sheet transactions or arrangements.

SUBSEQUENT EVENTS

On 6 August 2015, Hengshi USA Company Limited was incorporated in the USA with limited liability by the Company.

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On 17 August 2015, by capitalisation of our Company's other reserve, we issued 329,558,553 shares, 120,381,447 shares, 224,970,000 shares and 74,990,000 shares of the Company to Huachen Investment Limited, Huakai Investment Limited, Trade Power Investments Limited and Joyfar Limited, respectively, for a consideration of US\$43.6 million, US\$15.9 million, US\$29.8 million and US\$9.9 million, respectively.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to various types of financial risks in the ordinary course of our business, including foreign currency risk, interest rate risk, credit risk and liquidity risk.

Foreign Currency Risk

We are exposed to foreign currency risk arising primarily from sales to overseas customers that are mainly denominated in U.S. dollars and purchase of machines and equipment from overseas markets in Euros. As a result, any adverse change in the value of Renminbi against the relevant foreign currencies may affect our net profit margin and other financial condition and results of operations. Furthermore, we cannot predict if there will be any further reforms of China's exchange rate system or any change in foreign exchange policies in the future that may impact the value of Renminbi against foreign currencies. See "Risk Factors — Risks Relating to Our Group — We are subject to foreign exchange rate risks and our risk management measures may not be effective." We currently do not have a foreign currency hedging policy but have used foreign currency forward contracts to mitigate the risk when it is foreseen to be significant. For details of our foreign currency forward contracts, see "Business — Customers, Sales and Marketing — Foreign Currency Forward Contracts" and Note 26 to the Accountants' Report as set out in Appendix I to this prospectus.

The table below sets forth, as at the balance sheet dates indicated, the carrying amounts of our foreign currency denominated monetary assets and monetary liabilities.

	Assets			Assets	Liabilities			Liabilities
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2012	2013	2014	2015	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
United States dollars								
("USD")	51,949	88,847	130,509	141,999	3,077	4,535	30,352	17,176
European dollars ("EUR")	60	61	702	71,992	—	—	14,894	446
Japanese Yen ("JPY")	—	—	3	3	—	—	—	—
Total	<u>52,009</u>	<u>88,908</u>	<u>131,214</u>	<u>213,994</u>	<u>3,077</u>	<u>4,535</u>	<u>45,246</u>	<u>17,622</u>

A 5% strengthening of Renminbi against the following currencies as at the respective reporting period end dates would have increased our profit after tax or equity by the amounts shown below. A 5% weakening of Renminbi against the following currencies as at the respective reporting period end dates would have the equal but opposite effect on the below currencies to the amounts shown below, on the basis that all variables remain constant. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

	Year ended 31 December			As at 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
USD	2,077	3,584	4,257	(unaudited)	5,305
EUR	3	4	(604)	3	3,040
JPY	—	—	—	—	—
Total	<u>2,080</u>	<u>3,587</u>	<u>3,653</u>	<u>5,933</u>	<u>8,345</u>

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Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our debt obligations with variable interest rates due to the fluctuation of the prevailing market interest rate. We are also exposed to fair value interest rate risk in relation to our fixed-rate bank balances and bank borrowings. We currently do not have a policy to hedge our interest rate risk. Our management has continuously monitored our interest rate exposure and may consider hedging significant interest rate risk when needed. As at 31 December 2012, 2013 and 2014 and 30 June 2015, if interest rates on bank loans had been 50 basis points higher/lower with all other variables held constant, our profit before tax for the period would have been RMB0.2 million, RMB0.6 million, RMB0.5 million and RMB1.0 million lower/higher, respectively, as a result of higher/lower interest expenses.

Credit Risk

Our credit risk primarily relates to (i) our trade receivables, bills receivables, amounts due from related parties and a shareholder, pledged bank deposits, bank balances and cash, and (ii) guarantees provided by us to banks in respect of bank facilities granted to certain related parties and a shareholder. We believe that the credit risk on pledged bank deposits and bank balances and cash is limited because the majority of the counterparties are banks with high credit ratings or are state owned. However, during the Track Record Period, we had concentration of credit risk in relation to trade receivables as set forth in the table below.

	As at 31 December			As at
	2012	2013	2014	30 June
Amount due from the largest debtor as a percentage to trade receivables	<u>34%</u>	<u>20%</u>	<u>20%</u>	<u>22%</u>
Total amounts due from the five largest debtors as a percentage to trade receivables	<u>72%</u>	<u>75%</u>	<u>68%</u>	<u>61%</u>

All of the amounts due from Zhenshi and related parties of a non-trade nature had been fully settled as at the Latest Practicable Date. We have also endeavoured to develop new customers to diversify and strengthen our customer base to reduce the concentration of credit risk. In order to minimise the credit risk, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts, if any. In addition, we review the recoverable amount of significant debts at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. As such, we consider that our credit risk is significantly reduced.

In addition, we had provided financial guarantees to related parties and a shareholder in 2012, 2013 and 2014, respectively, which exposed us to credit risk of RMB1,133.4 million, RMB867.2 million, RMB1,140.0 million and nil as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. All such guarantees had been released as at the Latest Practicable Date.

Liquidity Risk

We have established an appropriate liquidity management framework for the management of our short-term, medium-term and long-term funding and liquidity management requirements. We manage our liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, continuously monitoring our forecast and actual cash flows, and matching the maturity profiles of our financial assets and liabilities. In addition, our management also monitors the utilisation of bank borrowings and ensures our compliance with loan covenants. For details of the maturity profile of our non-derivative financial liabilities based on contractual repayment terms, See Note 6 to the Accountants' Report as set out in Appendix I to this prospectus.

DIVIDEND POLICY

During the Track Record Period, we declared dividends in the amount of RMB14.8 million, RMB33.0 million, RMB29.8 million, RMB52.4 million and RMB95.0 million to our then shareholders on 29 August 2012,

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29 November 2013, 28 May 2014, 25 February 2015 and 14 April 2015, respectively, of which RMB13.3 million, RMB29.7 million, RMB28.7 million and RMB47.1 million were reinvested by our then shareholders and transferred to our capital on 8 November 2012, 26 January 2014, 17 July 2014 and 24 March 2015, respectively. The rest of the declared dividends were paid to our then shareholders. Dividends paid in prior periods may not be indicative of future dividend payments. We cannot guarantee when, if and in what form dividends will be paid in the future.

We may declare dividends in the future after taking into account our financial and business conditions, earnings, capital requirements and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of our constitutional documents and the Cayman Companies Law. Our Board or Shareholders in general meeting may declare dividends, which may not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

We currently intend to pay dividends to our Shareholders of approximately 30% of our profit available for distribution after the Global Offering, subject to, in each case, our Board's decision after a comprehensive review of our Company's financial performance, future expectations and other factors deemed relevant by our Board, and our Shareholders' approval.

DISTRIBUTABLE RESERVES

As at 30 June 2015, our Company had distributable reserves of RMB35.8 million available for distribution to our Shareholders.

LISTING EXPENSES

The estimated total listing expenses (based on the mid-point of our indicative price range for the Global Offering and assuming that the Over-allotment Option is not exercised and excluding all discretionary incentive fees in the Global Offering) in relation to the Global Offering are approximately RMB53.9 million, of which RMB28.4 million was or will be charged as other expenses to our consolidated statements of profit or loss and other comprehensive income and RMB25.5 million was or will be charged against equity, in accordance with International Accounting Standard 32, *Financial Instruments: Presentation* ("IAS 32"). Pursuant to such accounting standard, expenses that are incremental and directly attributable to the offering of new Shares are accounted for as a deduction from equity upon the Listing and issuance of new Shares. The expenses that do not relate to the offering of new Shares are charged to the consolidated statements of profit or loss and other comprehensive income as incurred. Expenses that relate jointly to the offering of new Shares and the listing of existing Shares are allocated between these activities based on the proportion of number of new Shares issued relative to the total number of Shares in issue and listed on the Stock Exchange.

For the year ended 31 December 2014 and the six months ended 30 June 2015, we recognised RMB2.2 million and RMB8.6 million of listing expenses as our other expenses, respectively. The estimated listing expenses are approximately RMB51.7 million for the 12 months ended 31 December 2015.

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KEY FINANCIAL RATIOS

The table below sets forth, as at the balance sheet dates or for the periods indicated, certain financial ratios.

	Notes	Year ended 31 December/As at 31 December			Six months ended 30 June
		2012	2013	2014	2015
Liquidity ratios					
Current ratio (times)	(1)	<u>1.0x</u>	<u>1.1x</u>	<u>1.3x</u>	<u>1.1x</u>
Quick ratio (times)	(2)	<u>0.9x</u>	<u>1.0x</u>	<u>1.2x</u>	<u>0.9x</u>
Capital adequacy ratios					
Debt-to-equity ratio	(3)	<u>136.4%</u>	<u>152.1%</u>	<u>93.3%</u>	<u>98.2%</u>
Gearing ratio	(4)	<u>167.1%</u>	<u>160.2%</u>	<u>104.6%</u>	<u>110.3%</u>
Profitability ratios					
Return on assets	(5)	<u>7.2%</u>	<u>7.2%</u>	<u>11.9%</u>	<u>22.2%</u>
Return on equity	(6)	<u>19.1%</u>	<u>19.0%</u>	<u>27.3%</u>	<u>46.0%</u>

Notes:

- (1) Current ratio represents current assets as at a record date divided by current liabilities as at the same record date.
- (2) Quick ratio represents current assets excluding inventory as at a record date divided by current liabilities as at the same record date.
- (3) Debt-to-equity ratio represents total net debt (which is equal to total borrowings less cash and cash equivalents) as at a record date divided by total equity as at the same record date.
- (4) Gearing ratio represents total borrowings as at a record date divided by total equity as at the same record date.
- (5) Return on assets represents net profit for a period, which is annualised if applicable, divided by the average assets as at the beginning and the end of such period.
- (6) Return on equity represents net profit for a period, which is annualised if applicable, divided by the average equity as at the beginning and the end of such period.

Liquidity Ratios

Our current ratio was 1.0x, 1.1x, 1.3x and 1.1x as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The decrease in our current ratio from 31 December 2014 to 30 June 2015 was mainly due to an increase in our current liabilities from RMB472.2 million to RMB627.7 million primarily reflecting increases in our bills payable and amounts due to related parties as at 30 June 2015. The increase in our current ratio from 31 December 2013 to 31 December 2014 was mainly due to a decrease in our current liabilities from RMB667.4 million as at 31 December 2013 to RMB472.2 million as at 31 December 2014, primarily reflecting (i) a decrease in our short-term borrowings as a result of our repayment of short-term bank borrowings at the end of 2014, (ii) a decrease in our amounts due to shareholders as we recorded larger amounts due to shareholders as at 31 December 2013 as a result of our delay in settlement of payables to Zhenshi in December 2013, and (iii) the fact that we did not record any dividend payable as at 31 December 2014. Our current ratio remained relatively stable as at 31 December 2012 and 2013.

Our quick ratio was 0.9x, 1.0x, 1.2x and 0.9x as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The decrease in our quick ratio from 31 December 2014 to 30 June 2015 was due to an increase in our current liabilities from RMB472.2 million to RMB627.7 million primarily reflecting increases in our bank borrowings bills payable and amounts due to related parties as at 30 June 2015. The increase in our quick ratio from 31 December 2013 to 31 December 2014 was mainly due to a decrease in our current liabilities from RMB667.4 million as at 31 December 2013 to RMB472.2 million as at 31 December 2014, primarily reflecting (i) a decrease in our short-term borrowings as a result of our repayment of short-term bank borrowings at the end of 2014, (ii) a decrease in our amounts due to shareholders as we recorded larger amounts due to shareholders as at 31 December 2013 as a result of our delay in settlement of payables to Zhenshi in December 2013, and (iii) the fact that we did not record any dividend payable as at 31 December 2014. Our quick ratio remained relatively stable as at 31 December 2012 and 2013.

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Capital Adequacy Ratios

Our debt-to-equity ratio was 136.4%, 152.1%, 93.3% and 98.2% as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The increase in our debt-to-equity ratio from 31 December 2014 to 30 June 2015 was mainly due to an increase in our bank borrowings from RMB420.3 million as at 31 December 2014 to RMB436.1 million as at 30 June 2015. The decrease in our debt-to-equity ratio from 31 December 2013 to 31 December 2014 was mainly due to an increase in our equity from RMB416.7 million as at 31 December 2013 to RMB549.9 million as at 31 December 2014, primarily reflecting a capital injection of RMB94.4 million and profit of RMB131.7 million in 2014. The increase in our debt-to-equity ratio from 31 December 2012 to 31 December 2013 was mainly due to an increase in our total net debt as at 31 December 2013, primarily due to (i) an increase in our bank borrowings from RMB441.5 million as at 31 December 2012 to RMB511.8 million as at 31 December 2013, and (ii) the lower cash and cash equivalents we recorded as at 31 December 2013 as we had net cash used in operating activities in 2013.

Our gearing ratio was 167.1%, 160.2%, 104.6% and 110.3% as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. The increase in our gearing ratio from 31 December 2014 to 30 June 2015 was primarily due to an increase in our bank borrowings from RMB420.3 million as at 31 December 2014 to RMB436.1 million as at 30 June 2015. The decrease in our gearing ratio from 31 December 2013 to 31 December 2014 was mainly due to an increase in our equity from RMB416.7 million as at 31 December 2013 to RMB549.9 million as at 31 December 2014, primarily reflecting a capital injection of RMB94.4 million and profit of RMB131.7 million in 2014. Our gearing ratio remained relatively stable as at 31 December 2012 and 2013.

Profitability Ratios

We achieved a return on assets of 7.2%, 7.2%, 11.9% and 22.2% in 2012, 2013, 2014 and the six months ended 30 June 2015, respectively. The increase in our return on assets in the six months ended 30 June 2015 was mainly due to a change in our net profit from RMB131.7 million in 2014 to RMB129.9 million for the six months ended 30 June 2015. The increase in our return on assets in 2014 was mainly due to an increase in our net profit from RMB78.1 million in 2013 to RMB131.7 million in 2014. Our return on assets remained relatively stable in 2012 and 2013.

We achieved a return on equity of 19.1%, 19.0%, 27.3% and 46.0% in 2012, 2013 and 2014 and the six months ended 30 June 2015, respectively. The increase in our return on equity in the six months ended 2015 was mainly due to a change in our net profit from RMB131.7 million in 2014 to RMB129.9 million for the six months ended 30 June 2015. The increase in our return on equity in 2014 was mainly due to an increase in our net profit from RMB78.1 million in 2013 to RMB131.7 million in 2014, and such increase outpaced the increase in the average equity we recorded in 2014. Our return on equity remained relatively stable in 2012 and 2013.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in the financial or trading position of our Group since 30 June 2015 (being the date to which our latest financial information was prepared as set out in the Accountants' Report as set out in Appendix I to this prospectus), and there is no event since 30 June 2015 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had they been required to comply with Rules 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND VALUATION

Our property interests, including the interests in properties that are attributable to us, as valued by Greater China Appraisal Limited as at 31 October 2015, were approximately RMB197.0 million. For further details of

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our property interests and the text of the letter and valuation certificates of these property interests prepared by Greater China Appraisal Limited, see “Appendix III — Property Valuation” to this prospectus.

Disclosure of the reconciliation of the valuation of the interests in properties attributable to us as at 31 October 2015 and such property interests in our consolidated statement of financial position as at 31 December 2014 as required under Rule 5.07 of the Hong Kong Listing Rules is set forth below.

	<u>RMB in millions</u>
Net book value of the following properties as at 30 June 2015	
— Buildings included in property, plant and equipment	90.0
— Buildings under construction in progress included in property, plant and equipment	47.3
— Prepaid lease payment	32.0
	<hr/>
Add: Addition	1.2
Less: Depreciation	(2.0)
	<hr/>
Net book value as at 31 October 2015	168.5
Net valuation surplus	28.5
	<hr/>
Market value of properties as at 31 October 2015 as set out in the property valuation report in Appendix III to this prospectus	<u><u>197.0</u></u>

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

See Appendix II — “Unaudited Pro Forma Financial Information” for details.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See the section headed “Business — Our Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

The table below sets forth the estimate of the net proceeds of the Global Offering which we will receive after deduction of underwriting fees and commissions and other estimated expenses payable by us in connection with the Global Offering:

	<u>Assuming the Over-allotment Option is not exercised</u>	<u>Assuming the Over-allotment Option is exercised in full</u>
Assuming an Offer Price of HK\$2.20 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus)	Approximately HK\$482 million	Approximately HK\$564 million
Assuming an Offer Price of HK\$2.60 per Offer Share (being the high end of the Offer Price range stated in this prospectus)	Approximately HK\$582 million	Approximately HK\$679 million
Assuming an Offer Price of HK\$1.80 per Offer Share (being the low end of the Offer Price range stated in this prospectus)	Approximately HK\$382 million	Approximately HK\$449 million

We intend to use the net proceeds of the Global Offering for the following purposes (assuming an Offer Price of HK\$2.20 per Share, being the mid-point of the Offer Price range stated in the prospectus, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Global Offering, and the Over-allotment Option is not exercised):

- approximately 45%, or HK\$218 million, will be used to support our Hengshi Phase IV Expansion Plan, details of which are set forth below:
 - HK\$29 million will be used for purchasing land use rights, which will be incurred in 2016;
 - HK\$69 million will be used for constructing production facilities, which will be incurred in 2016; and
 - HK\$120 million will be used for purchasing manufacturing equipment, cutting machines and ancillary equipment, which will be incurred in 2016.

For details of our Hengshi Phase IV Expansion Plan, see “Business — Production — Future Expansion Plans — Production Capacity Expansion in China.”

FUTURE PLANS AND USE OF PROCEEDS

- approximately 30%, or HK\$144 million, will be used for partial repayments of bank loans, details of which are set forth below:

Bank loan amount	Interest rates	Drawdown date	Maturity date	Uses of bank loan
HK\$167 million (RMB132 million)	5.35%	31 March 2015	31 March 2016	These bank loans were made to repay certain historical bank loans which were settled in April 2015 in order to release guarantees provided by our related parties and a shareholder. These historical bank loans were used for (i) purchases of raw materials and packaging materials as to RMB112 million, with maturity dates between 27 May 2015 and 8 March 2016 and interest rates ranging from 5.67% to 6.72%, and (ii) funding our Hengshi Phase III Expansion Plan as to RMB120 million, with maturity dates between 1 March 2019 and 25 August 2019 and interest rates ranging from 3.13% to 6.78%.
HK\$127 million (RMB100 million)	5.35%	31 March 2015	30 March 2016	

- approximately 15%, or HK\$72 million, will be used for purchase of a property from Zhenshi in Tongxiang, Zhejiang province. For details, see “Connected Transactions — Non-recurrent Connected Transactions — Acquisition of a Property”; and
- approximately 10%, or HK\$48 million, will be used as general working capital of our Group.

As at the Latest Practicable Date, we had not identified any particular acquisition target.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the proposed Offer Price range or if the Over-allotment Option is exercised.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds into short-term demand deposits with licensed banks or financial institutions. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

UNDERWRITING

HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited
Haitong International Securities Company Limited
First Shanghai Securities Limited

HONG KONG PUBLIC OFFER

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 25,000,000 Hong Kong Offer Shares (subject to adjustment and re-allocation) for subscription by way of Hong Kong Public Offer at the Offer Price on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be offered as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offer on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or to procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination by notice in writing to us from the Sole Global Coordinator after consultation with us if, prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, large-scale outbreaks of infectious diseases, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the Cayman Islands, the PRC, the United States, Japan, the British Virgin Islands, Egypt or the European Union (the “**Relevant Jurisdictions**”);
 - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions or any equity securities or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions;
 - (iii) any moratorium, suspension or restriction in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange;
 - (iv) any general moratorium on commercial banking activities in any Relevant Jurisdictions declared by the relevant authorities, or any material disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions;

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- (v) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions;
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, the United States or the European Union on Hong Kong, the Cayman Islands, the British Virgin Islands or the PRC;
- (vii) a change or development in taxation or foreign exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar against any foreign currencies);
- (viii) any material adverse change or prospective material adverse change in the business, results of operations, financial or trading position, conditions or prospects of our Company or any member of the Group (including any litigation or claim of any third party being threatened or instigated against our Company or any member of the Group); or a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (ix) the chairman or general manager of our Company vacating his or her office;
- (x) an authority or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director;
- (xi) a contravention by any member of the Group of the Listing Rules or applicable laws; or a prohibition on our Company for whatever reason from allotting or selling the Shares (including the Over-allotment Option) pursuant to the terms of the Global Offering;
- (xii) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC;
- (xiii) any event or series of events in the nature of force majeure, including, without limitation, acts of government, labour disputes strikes, lock-outs, riots, public disorder, fire, explosion, flooding, civil commotion, acts of war, acts of God, acts of terrorism, outbreak of diseases or epidemics including, but not limited to, SARS and H5N1 and such related/mutated forms or accident or interruption or delay in transportation, economic sanction and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis or any material change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xiv) an order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator (1) has or will have a material adverse effect on the business, results of operations, financial or trading position,

UNDERWRITING

condition or prospect of the Group as a whole; or (2) has or will have a material adverse effect on the success of the Global Offering; or (3) makes or will make it inexpedient or impracticable for any material part of the Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offer or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or (4) has or will have the effect of making any material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there has come to the notice of the Sole Global Coordinator after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in any of this prospectus and the Application Forms, and/or in any notices, announcements, advertisements, the post hearing information pack of the Company posted on the Stock Exchange's website at www.hkexnews.hk on 7 December 2015, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respect;
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus and the Application Forms, and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offer (including any supplement or amendment thereto but excluding (i) the names and addresses of the Sole Global Coordinator, Sole Sponsor and the Hong Kong Underwriters; and (ii) the qualifications of the Sole Sponsor set out in the paragraph headed "Consents of Experts" in Appendix V to this prospectus);
 - (iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters or the International Underwriters);
 - (iv) any event, act or omission which gives or is likely to give rise to any material liability of any of the indemnifying parties under the Hong Kong Underwriting Agreement;
 - (v) that there is any adverse change or development or likely to be any prospective adverse change in the business, results of operations, financial or trading position, prospects or condition of the Group as a whole;
 - (vi) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the warranties in the Hong Kong Underwriting Agreement;
 - (vii) that the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) that we withdraw this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering.

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UNDERTAKINGS

Undertakings pursuant to the Listing Rules

(A) Undertakings by our Company

We have undertaken to the Stock Exchange that, except in certain circumstances prescribed by Rule 10.08 of the Listing Rules or pursuant to the Global Offering and the Over-allotment Option, no further Shares or securities convertible into shares of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the date on which our Shares first commence dealing on the Stock Exchange (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing).

(B) Undertakings by our Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua

In accordance with Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua, each being a controlling shareholder (as defined in the Listing Rules) of the Company as at the Latest Practicable Date, has undertaken to the Stock Exchange and us that, except pursuant to the Global Offering, he/it will not and will procure that the relevant registered holder will not, save as permitted under the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), except pursuant to the Global Offering and the Over-allotment Option, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, either directly or indirectly, conditionally or unconditionally, any of the Shares or securities of the Company owned by him/it (the “**Relevant Securities**”); or
- (b) save for Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua, in the period of six months commencing on the date on which the First Six-month Period expires, except pursuant to the Global Offering and the Over-allotment Option, dispose of, enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, either directly or indirectly, conditionally or unconditionally, any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

In accordance with Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua, each being a controlling shareholder (as defined in the Listing Rules) of the Company as at the Latest Practicable Date, has also undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any of shares or of other securities of the Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform us of such pledge or charge together with the number of such shares or other securities so pledged or charged; and
- (b) when he/it receives any indication, either verbal or written, from any pledgee or chargee of any of shares or of other securities of the Company pledged or charged that such shares or securities will be disposed of, immediately inform us of any such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua and announce such as soon as possible after being so informed.

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Undertakings pursuant to the Hong Kong Underwriting Agreement

(A) Undertakings by our Company

We have undertaken to each of the Sole Global Coordinator and the Hong Kong Underwriters that except for the issue, lending, offer and sale of Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we will not and will procure each other member of the Group not to, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any shares or other securities of such other member of the Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other member of the Group, as applicable);
- (c) enter into any transaction with the same economic effect as any transaction described (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the period of six months commencing on the date immediately following the first six-month period, the Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, the Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

(B) Undertakings by the Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua

Immediately following the completion of the Global Offering, our Controlling Shareholders will approximately hold 32.96% of the issued Shares (assuming the Over-allotment Option is not exercised) or approximately 31.77% of the issued Shares (assuming the Over-allotment Option is exercised in full). As at the Latest Practicable Date, Trade Power Investment Limited held approximately 30% of the issued Shares. Trade Power Investment Limited was wholly owned by Soar City Investments Limited, which in turn was wholly owned by Mr. Tang Hsin-hua. Each of Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua is therefore a controlling shareholder (as defined in the Listing Rules) of the Company. Immediately following completion of the Global Offering, Mr. Tang Hsin-hua, through Soar City Investments

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Limited and Trade Power Investment Limited, will hold approximately 22.50% of the issued Shares (assuming the Over-allotment Option is not exercised) or approximately 21.69% of the issued Shares (assuming the Over-allotment Option is exercised in full).

Each of our Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua, each being a controlling shareholder (as defined in the Listing Rules) of the Company as at the Latest Practicable Date, have undertaken to each of the Company, the Sole Global Coordinator and the Hong Kong Underwriters that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) save for any lending of Shares pursuant to the Stock Borrowing Agreement, at any time during the First Six-month Period, he/it will not, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of the Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of the Company or shares or other securities of such other member of the Group, as applicable, in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (b) save for Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua, in the period of the following six months commencing from the expiry of the First Six-month Period, he/it will not, enter into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he/it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company; and
- (c) save for Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua, until the expiry of the second six-month period as stipulated in (b) above, in the event that he/it enters into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agrees to or publicly announce any intention to effect any such transaction, he/it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by our Controlling Shareholders, Trade Power Investment Limited, Soar City Investments Limited and Mr. Tang Hsin-hua and announce such as soon as possible after being so informed by it/him.

(C) Undertakings by the Existing Shareholders

Mr. Zhang Jiankan and Huakai Investment Limited (together, the “**Existing Shareholders**”) have entered into a deed of lock-up undertaking in favour of us and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (the “**Lock-up Undertaking**”). Pursuant to the Lock-up Undertaking, each of the Existing Shareholders, severally and jointly, undertakes to each of us and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) that he/it will not, without prior written consent of the Sole

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Global Coordinator, for a period commencing on the Listing Date, and ending on a date which is six months after the Listing Date (the “**Lock-up Period**”),

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein owned directly by such Existing Shareholder as at the Listing Date or with respect to which such Existing Shareholder has beneficial ownership) (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (collectively, the “**Lock-up Shares**”);
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Lock-up Shares or any interest in any of the foregoing (including without limitation, any securities convertible into or exchangeable or exercisable for or that present the right to receive, or any warrants or other rights to purchase, any Lock-up Shares);
- (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction described in (a) or (b) or (c) above, in each case, whether any such transaction described in (a) or (b) or (c) above is to be settled by delivery of Lock-up Shares, in cash or otherwise.

The above restrictions shall not apply (A) where the above arrangements or transactions are entered into, undertaken or consummated pursuant to a requirement of a governmental authority, a court of law, an arbitral tribunal or a requirement of any applicable law; (B) to any mortgage, pledge or charge of any Lock-up Shares by any of the Existing Shareholders (not involving a change of legal ownership of such Lock-up Shares other than on enforcement) for a bona fide commercial loan or other financing arrangements; or (C) to any sale of any Shares acquired on-market by any of the Existing Shareholders after the Listing Date.

Notwithstanding the foregoing, each of the Existing Shareholders may transfer the Lock-up Shares with the prior written consent of the Sole Global Coordinator. In addition, notwithstanding the foregoing, each of the Existing Shareholders may transfer the share capital of the Company to any of its affiliates, whether directly or indirectly; provided, however, that in any such case, it/he shall be a condition to the transfer that the transferee execute an agreement stating that the transferee is receiving and holding such capital stock subject to the provisions of the Lock-up Undertaking and there shall be no further transfer of such capital stock except in accordance with the Lock-up Undertaking. Each of the Existing Shareholders will have good and marketable title to the respective Lock-up Shares, free and clear of all liens, encumbrances, and claims whatsoever for the duration of the Lock-up Period. Each of the Existing Shareholders has also agreed and consented to the Company placing restrictive legends on the relevant share certificates and imposing “stop-transfer” restrictions with respect to its/his Lock-up Shares except in compliance with the foregoing restrictions.

Indemnity

The Company has agreed to indemnify, among others, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters for certain losses which they may suffer, including (among other things) losses arising from its performance of its obligations under the Hong Kong Underwriting Agreement and any breach of the Company of the Hong Kong Underwriting Agreement.

Hong Kong Underwriters’ Interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, as at the Latest Practicable Date, none of the Hong Kong Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of the Company or any member of the Group

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or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of the Company or any member of the Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Underwriting Agreements.

INTERNATIONAL OFFERING

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offering Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offering Shares which are not taken up under the International Offering.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require our Company to issue and allot up to an aggregate of 37,500,000 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to, among other things, cover over allocations (if any) in the International Offering. It is expected the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

TOTAL COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission of 3% of the aggregate Offer Price of all the Offer Shares, out of which they will pay any sub-underwriting commissions and other fees.

The Sole Global Coordinator may receive a discretionary incentive fee of up to 1% of the aggregate Offer Price of all of the Offer Shares.

For any unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the underwriting commission will not be paid to the Hong Kong Underwriters but will instead be paid, at the rate applicable to the International Offering, to the relevant International Underwriters.

The aggregate fees payable to the Underwriters in relation to the Global Offering (assuming an Offer Price of HK\$2.20 per Offer Shares (which is the mid-point of the Offer Price range) and the exercise of the Over-allotment Option in full, excluding the full payment of the discretionary incentive fees) will be approximately HK\$31.0 million.

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Global Offering are estimated to be approximately HK\$65.4 million (assuming an Offer Price of HK\$2.20 per Offer Share (which is the mid-point of the Offer Price range) excluding the full payment of the discretionary incentive fees) in total and will be paid by the Company.

ACTIVITIES BY SYNDICATE MEMBERS

The Underwriters of the Hong Kong Public Offer and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the

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account of others. In the ordinary course of their various business activities, the Syndicate Members and their respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities with relationships with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

In relation to the Shares, the activities of the Syndicate Members and their affiliates could include acting as agent for buyers and sellers of the Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the Shares (which financing may be secured by the Shares) in the Global Offering, proprietary trading in the Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the Shares, which may have a negative impact on the trading price of the Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the Shares, in baskets of securities or indices including the Shares, in units of funds that may purchase the Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having the Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in the Shares in most cases.

All such activities may occur both during and after the end of the stabilising period as described in the section headed "Structure of the Global Offering—Stabilisation and Over-Allocation" in this prospectus. Such activities may affect the market price or value of the Shares, the liquidity or trading volume in the Shares and the volatility of the price of the Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offer as part of the Global Offering. Morgan Stanley Asia Limited is the Sole Sponsor of the Global Offering.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (i) the Hong Kong Public Offer of 25,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described below under the section headed “The Hong Kong Public Offer;” and
- (ii) the International Offering of 225,000,000 Shares (subject to adjustment as mentioned below) outside the United States in accordance with Regulation S.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offer or indicate an interest, if qualified to do so, for the International Offering Shares under the International Offering, but may not do both. The Hong Kong Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offering Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offering Shares in Hong Kong and other jurisdictions outside the United States in accordance with Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offering Shares. Prospective investors will be required to specify the number of International Offering Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offering Shares to be offered under the Hong Kong Public Offer and the International Offering respectively may be subject to reallocation as described in the paragraph headed “Pricing and Allocation” of this section.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 11 December 2015 and in no event later than 18 December 2015. The Offer Price will be not more than the maximum Offer Price as stated in the Application Forms.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters and with our consent) considers the number of Offer Shares being offered under the Global Offering that is stated in this prospectus and/or if appropriate, the indicative Offer Price range that is stated in the Application Forms may be reduced at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offer on 11 December 2015 cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and at the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.chinahengshi.com.cn a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offer. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the

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Hong Kong Public Offer, the Offer Price, if agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

The Hong Kong Offer Shares and the International Offering Shares may, in certain circumstances, be reallocated as between the Hong Kong Public Offer and International Offering at the discretion of the Sole Global Coordinator.

Allocation of the International Offering Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and us and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Offer Shares after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The applicable Offer Price, level of applications in the Hong Kong Public Offer, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on 18 December 2015 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at www.hkexnews.hk and our website www.chinahengshi.com.cn.

THE HONG KONG PUBLIC OFFER

We are offering 25,000,000 Shares at the Offer Price under the Hong Kong Public Offer, representing 10% of the 250,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Shares offered under the Hong Kong Public Offer will represent 2.5% of our total issued share capital immediately after completion of the Global Offering. In Hong Kong, individual retail investors are expected to apply for Hong Kong Offer Shares through the Hong Kong Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offering Shares will not be allotted International Offering Shares in the International Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offer, to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offer and to ensure that it is excluded from any application for Hong Kong Offer Shares.

The Offer Price will be not more than the maximum offer price as stated in the Application Forms. Applicants under the Hong Kong Public Offer are required to pay, on application, the maximum offer price of HK\$2.60 per Share plus brokerage of 1%, SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%. If the Offer Price, as finally determined on the Price Determination Date, is lower than the maximum offer price, we will refund the respective difference (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

For allocation only, the 25,000,000 Shares initially being offered for subscription under the Hong Kong Public Offer will be divided equally (to the nearest board lot) into two pools: Pool A comprising 12,500,000

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Hong Kong Offer Shares and Pool B comprising 12,500,000 Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Offer Shares in one pool (but not both pools) are under subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications within either pool or between the pools and any application for more than 50% of the 25,000,000 Shares initially comprised in the Hong Kong Public Offer (that is 12,500,000 Hong Kong Offer Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offer will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Offering, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of Shares between the Hong Kong Public Offer and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares available under the Hong Kong Public Offer, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offer will be increased to 75,000,000, 100,000,000 and 125,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as "**Mandatory Reallocation.**" In such cases, the number of Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Shares will be allocated to Pool A and Pool B.

If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator may, at its discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offer to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offer, regardless of whether the Mandatory Reallocation is triggered. References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offer.

CONDITIONS OF THE HONG KONG PUBLIC OFFER

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offer will be conditional on:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (subject only to allotment and dispatch of the Share certificates in respect thereof and such other normal conditions acceptable to us and the Sole Global Coordinator, on behalf of the Underwriters) not later than 21 December 2015 (or such later date as we and the Sole Global Coordinator, on behalf of the Hong Kong Underwriters, may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- the Offer Price having been duly determined between us and the Sole Global Coordinator (on behalf of the Underwriters);

STRUCTURE OF THE GLOBAL OFFERING

- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under the respective Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator, on behalf of the Underwriters) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If for any reason, the Offer Price is not agreed by 18 December 2015 between us and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offer to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.chinahengshi.com.cn on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offer and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on 18 December 2015 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our Shares, which is expected to be on 21 December 2015, if (i) the Global Offering has become unconditional in all respects, and (ii) the right of termination as described in “Underwriting — Hong Kong Public Offer — Grounds for Termination” in this prospectus has not been exercised.

THE INTERNATIONAL OFFERING

The number of International Offering Shares to be initially offered for subscription under the International Offering will be 225,000,000 Shares, representing approximately 90% of the Offer Shares under the Global Offering.

Pursuant to the International Offering, the International Underwriters will conditionally place the Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in accordance with Regulation S. The International Offering is subject to the Hong Kong Public Offer being unconditional.

If the International Offering Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed International Offering Shares to the Hong Kong Public Offer, in such proportions as the Sole Global Coordinator deems appropriate.

We expect to grant the Over-allotment Option to the Sole Global Coordinator exercisable at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Hong Kong Public Offer. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Company may be required to issue and allot up to 37,500,000 Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time within the 30 days from the last day for the lodging applications under the Hong Kong Public Offer, to require the Company to allot and issue up to an aggregate of 37,500,000 additional Shares, representing 15% of the initial size of the Global Offering at the Offer Price under the International Offering to, among other things, cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional International Offering Shares to be issued pursuant thereto will represent approximately 15% of the issued share capital of the Company immediately after the completion of the Global Offering and the Capitalisation Issue. In the event that the Over-allotment Option is exercised, we will make an announcement.

STABILISATION AND OVER-ALLOCATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited. The price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, Morgan Stanley & Co. International plc, as Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Hong Kong Public Offer. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offer. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 37,500,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering. Stabilising action will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation and stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules under the SFO includes: **(i)** over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; **(ii)** selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; **(iii)** purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; **(iv)** purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; **(v)** selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and **(vi)** offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, or any person acting for it, will maintain such a position;

STRUCTURE OF THE GLOBAL OFFERING

- liquidation of any such long position by the Stabilising Manager may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on 10 January 2016, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

We will ensure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules will be made within seven days of the expiration of the stabilising period. In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 37,500,000 Shares and cover such over-allocations by (among other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

STOCK BORROWING AGREEMENT

The Stabilising Manager or any person acting for it may choose to borrow Shares from Huachen Investment Limited, under the Stock Borrowing Agreement, or acquire Shares from other sources, including the exercising of the Over-allotment Option. The Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- such stock borrowing arrangement with Huachen Investment Limited will only be effected by the Stabilising Manager for settlement of over-allocations in the International Offering and covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares borrowed from Huachen Investment Limited under the Stock Borrowing Agreement will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Huachen Investment Limited or its nominees on or before the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- no payment will be made to Huachen Investment Limited by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date.

We expect that we will, on or about 11 December 2015, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering.

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Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on 21 December 2015, it is expected that dealings in Shares on the Stock Exchange will commence at 9:00 a.m. on 21 December 2015. The Shares will be traded in board lots of 2,000 each.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company and the Sole Global Coordinator may accept or reject it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted under the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- an associate (as defined in the Listing Rules) of any of the above;
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

HOW TO APPLY FOR HONG KONG OFFER SHARES

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 8 December 2015 until 12:00 noon on Friday, 11 December 2015 from:

- (a) any of the following offices of the Hong Kong Underwriters:

Morgan Stanley Asia Limited
Level 46, International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Haitong International Securities Company Limited
22/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

- (b) any of the branches of the following receiving bank:

- Bank of Communications Co., Ltd. Hong Kong Branch

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Taikoo Shing Sub-Branch	Shop 38, G/F., CityPlaza 2, 18 Taikoo Shing Road
Kowloon	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
	Wong Tai Sin Sub-Branch	Shop N118, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin
New Territories	Yuen Long Sub-Branch	Shop 2B, G/F., Man Yu Building, 2-14 Tai Fung Street, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 8 December 2015 until 12:00 noon on Friday, 11 December 2015 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Bank of Communications (Nominee) Co. Ltd. – China Hengshi Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Tuesday, 8 December 2015 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 9 December 2015 — 9:00 a.m. to 5:00 p.m.
- Thursday, 10 December 2015 — 9:00 a.m. to 5:00 p.m.
- Friday, 11 December 2015 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 11 December 2015, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Cayman Companies Laws, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- agree to disclose to the Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH HK eIPO White Form service

General

Individuals who meet the criteria "Who can apply" section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** service to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 8 December 2015 until 11:30 a.m. on Friday, 11 December 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 11 December 2015 or such later time under the “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form** Service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** Service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** Service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<http://ip.ccass.com>) (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (a) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (b) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
 - agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
 - agree to disclose your personal data to the Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
 - agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the 30th day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum offer price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 2,000 Hong Kong Offer Shares. Instructions for more than 2,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

- **Tuesday, 8 December 2015 – 9:00 a.m. to 8:30 p.m.⁽¹⁾**
- **Wednesday, 9 December 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- **Thursday, 10 December 2015 – 8:00 a.m. to 8:30 p.m.⁽¹⁾**
- **Friday, 11 December 2015 – 8:00 a.m.⁽¹⁾ to 12:00 noon**

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 8 December 2015 until 12:00 noon on Friday, 11 December 2015 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 11 December 2015, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR HONG KONG OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Friday, 11 December 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum offer price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You may submit an application using a WHITE or YELLOW Application Form or through the **HK eIPO White Form** service in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering — Pricing and Allocation”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 11 December 2015, instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 11 December 2015, or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offer and the basis of allocation of the Hong Kong Offer Shares on Friday, 18 December 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company’s website at www.chinahengshi.com.cn and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.chinahengshi.com.cn and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Friday, 18 December 2015;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 18 December 2015 to 12:00 mid-night on Thursday, 24 December 2015;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 18 December 2015 to Wednesday, 23 December 2015 (excluding Saturday, Sunday and public holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 18 December 2015 to Tuesday, 22 December 2015 at all the designated receiving bank branches and sub-branches .

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract

HOW TO APPLY FOR HONG KONG OFFER SHARES

under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the 30th day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company on the same basis as disclosed on page 264.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application may be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offering Shares;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$2.60 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with section headed "Structure of the Global Offering – Conditions of the Hong Kong Public Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 18 December 2015.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum offer price per Offer Share paid on application in the event that the Offer Price is less than the maximum offer price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Friday, 18 December 2015.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, 21 December 2015 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 18 December 2015 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Friday, 18 December 2015, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 18 December 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 18 December 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Public Offer shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the manner described in the paragraph headed "Publication of Results" above. You should check the announcement published by the Company and report any

HOW TO APPLY FOR HONG KONG OFFER SHARES

discrepancies to HKSCC before 5:00 p.m. on Friday, 18 December 2015 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Friday, 18 December 2015, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 18 December 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions to the designated **HK eIPO White Form** Service Provider in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 18 December 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offer in the manner specified in the paragraph headed "Publication of Results" above on Friday, 18 December 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 18 December 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS

HOW TO APPLY FOR HONG KONG OFFER SHARES

Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 18 December 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum offer price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 18 December 2015.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

Deloitte.

德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

8 December 2015
The Directors
China Hengshi Foundation Company Limited
中國恒石基業有限公司

Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to China Hengshi Foundation Company Limited (formerly known as Hengshi Holdings) (the “Company”) and its subsidiary (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015 (the “Track Record Period”) (the “Financial Information”), for the inclusion in the prospectus of the Company dated 8 December 2015 (the “Prospectus”) in connection with the initial public offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”).

The Company, which acts as an investment holding company, was incorporated as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands on 23 February 2015. Pursuant to a group reorganisation, as more fully explained in the section headed “Our History, Reorganisation and Corporate Structure” in the Prospectus (the “Group Reorganisation”), the Company became the holding company of the entities now comprising the Group in April 2015.

As at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered capital/ quota capital	Equity interest attributable to the Group					Principal activities
			As at 31 December			As at 30 June		
			2012	2013	2014	2015	As at the date of this report	
<i>Directly held:</i>								
Huaxu Investment Limited	British Virgin Islands (“BVI”) 4 March 2015	Ordinary Share United States Dollars (“USD”) 1	NA	NA	NA	100%	100%	Investment Holding
<i>Indirectly held:</i>								
Huajin Capital Limited	Hong Kong 20 March 2015	Ordinary Share USD100	NA	NA	NA	100%	100%	Investment Holding
浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) (“Hengshi Fiberglass” formerly known as Zhenshi Group Hengshi Fiberglass Fabric Co., Ltd.)* (note a)	The People’s Republic of China (The “PRC”) 7 September 2000	Registered capital USD73,680,000	100%	100%	100%	100%	100%	Manufacture and sales of fiberglass fabrics
Hengshi Egypt Fiberglass Fabrics S.A.E.) (“Hengshi Egypt”)	The Arab Republic of Egypt (“Egypt”) 10 December 2014	Ordinary share USD3,500,000	N/A	N/A	90%	90%	90%	Manufacture and sales of fiberglass fabrics
Hengshi USA Company Limited (“Hengshi USA”)	United States of America (“USA”) 6 August 2015	Ordinary share USD200,000	N/A	N/A	N/A	N/A	100%	Sales of fiberglass fabrics

* The English name is for identification only. The official name is in Chinese.

Notes:

(a) Wholly foreign-owned enterprise with limited liability.

All companies comprising the Group have adopted 31 December as their financial year end date.

The statutory financial statements of the following entities for the Track Record Period, or since its respective dates of incorporation/establishment, where this is a shorter period, were prepared in accordance with the relevant accounting principles and financial regulations applicable to their respective jurisdictions and were audited by the following certified public accountants:

Name	Financial year ended	Name of auditor
Hengshi Fiberglass	For each of the years ended 31 December 2012, 2013 and 2014	嘉興求真會計師事務所有限公司 (Jiaying Qiuzhen Certified Public Accountants Co., Ltd.#)
Hengshi Egypt	Period from 10 December 2014 (date of establishment) to 31 December 2014	Mohammed Magdy Elsayed Shaban Certified Accountant and Tax Expert Joint Stock Company

The English name is for identification only. The official name is in Chinese.

No audited statutory financial statements have been prepared for the Company and its subsidiary, Huaxu Investment Limited, incorporated in the BVI since their respective dates of incorporation as there are no statutory requirements to do so.

No audited statutory financial statements have been prepared for Huajin Capital Limited as it has not reached the statutory limit imposed on the issuance of first set of audited statutory financial statements.

No audited statutory financial statements have been prepared for Hengshi USA as it has not reached the statutory limit imposed on the issuance of first set of audited statutory financial statements.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Track Record Period in accordance with accounting policies which conform with International Financial Reporting Standards (“IFRSs”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and also examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments are considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 December 2012, 2013, 2014 and 30 June 2015, and the financial performance and cash flows of Group for the Track Record Period.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity of the Group for the six months ended 30 June 2014 together with the notes thereon have been extracted from the Group’s unaudited consolidated financial information for the same period (the “June 2014 Financial Information”) which was prepared by the

directors of the Company solely for the purpose of this report. We conducted our review on the June 2014 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review of the June 2014 Financial Information consists of making enquiries, primarily of persons responsible for the financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the June 2014 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the June 2014 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

A. FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 December			Six months ended 30 June	
		2012	2013	2014	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	7	440,963	405,393	678,600	292,798	500,178
Cost of sales		(335,986)	(320,952)	(487,941)	(214,649)	(349,507)
Gross profit		104,977	84,441	190,659	78,149	150,671
Other income	8	25,453	37,437	26,865	12,874	6,518
Other gains and losses	9	32,338	50,921	37,028	(1,296)	64,940
Selling and distribution expenses		(27,288)	(30,215)	(43,974)	(21,004)	(30,885)
Administrative expenses		(11,921)	(10,978)	(13,495)	(6,891)	(13,420)
Research expenditure		(15,284)	(13,310)	(21,004)	(8,769)	(15,574)
Other expenses	10	(736)	(668)	(3,093)	(703)	(8,726)
Finance costs	11	(30,086)	(34,174)	(25,507)	(13,406)	(10,727)
Profit before tax	12	77,453	83,454	147,479	38,954	142,797
Income tax expense	15	(5,841)	(5,344)	(15,745)	(3,517)	(12,906)
Profit for the year/period		<u>71,612</u>	<u>78,110</u>	<u>131,734</u>	<u>35,437</u>	<u>129,891</u>
Other comprehensive expense						
<i>Items that may be subsequently reclassified to profit or loss:</i>						
Exchange differences on translating foreign operation		—	—	(68)	—	(1,222)
Total comprehensive income for the year/period		<u>71,612</u>	<u>78,110</u>	<u>131,666</u>	<u>35,437</u>	<u>128,669</u>
Profit (loss) for the year/period attributable to:						
Owners of the Company		71,612	78,110	131,789	35,437	130,160
Non-controlling interests		—	—	(55)	—	(269)
		<u>71,612</u>	<u>78,110</u>	<u>131,734</u>	<u>35,437</u>	<u>129,891</u>
Total comprehensive income (loss) for the year/period attributable to:						
Owners of the Company		71,612	78,110	131,728	35,437	129,060
Non-controlling interests		—	—	(62)	—	(391)
		<u>71,612</u>	<u>78,110</u>	<u>131,666</u>	<u>35,437</u>	<u>128,669</u>
Earnings per share — basic	17	<u>0.15</u>	<u>0.14</u>	<u>0.21</u>	<u>0.06</u>	<u>0.18</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December			As at
		2012	2013	2014	30 June
		RMB'000	RMB'000	RMB'000	2015
					RMB'000
Non-current assets					
Property, plant and equipment	18	356,508	327,411	442,899	490,580
Prepaid lease payments	19	18,686	18,250	31,585	31,203
Deferred tax assets	20	5,483	5,125	8,722	9,530
Deposits paid for acquisition of property, plant and equipment ...	21	2,003	1,620	7,447	10,493
		<u>382,680</u>	<u>352,406</u>	<u>490,653</u>	<u>541,806</u>
Current assets					
Inventories	22	96,497	72,066	82,711	98,315
Prepaid lease payments	19	436	436	776	776
Trade and other receivables	23	134,243	138,402	182,487	317,171
Bills receivables	24	1,300	12,020	2,335	4,650
Amounts due from other related parties	25	175,107	290,640	70,128	50,357
Amounts due from shareholders	25	—	179,358	201,930	1
Financial assets at fair value through profit or loss ("FVTPL") ...	26	—	5,400	—	—
Pledged bank deposits	27	168,670	—	32,218	133,173
Bank balances and cash	27	124,463	33,412	61,741	69,797
		<u>700,716</u>	<u>731,734</u>	<u>634,326</u>	<u>674,240</u>
Current liabilities					
Trade and other payables	28	11,181	6,130	40,919	42,203
Bills payables	29	167,902	—	10,465	103,945
Dividend payable		—	32,979	—	—
Amounts due to other related parties	25	2,261	8,753	6,914	43,169
Amounts due to shareholders	25	19	67,453	4,683	509
Financial liabilities at FVTPL	26	—	—	15,200	5,460
Provisions	30	51,800	38,300	65,300	—
Tax payable		3,043	2,054	8,290	2,405
Bank borrowings	31	441,500	511,750	320,400	430,000
		<u>677,706</u>	<u>667,419</u>	<u>472,171</u>	<u>627,691</u>
Net current assets		<u>23,010</u>	<u>64,315</u>	<u>162,155</u>	<u>46,549</u>
Total assets less current liabilities		<u>405,690</u>	<u>416,721</u>	<u>652,808</u>	<u>588,355</u>
Non-current liabilities					
Bank borrowings	31	—	—	99,899	6,114
Deferred tax liabilities	20	—	—	—	900
Deferred revenue	32	—	—	3,000	3,000
		<u>—</u>	<u>—</u>	<u>102,899</u>	<u>10,014</u>
Net assets		<u>405,690</u>	<u>416,721</u>	<u>549,909</u>	<u>578,341</u>
Capital and reserves					
Capital	33	361,014	361,014	455,434	1
Reserves		44,676	55,707	92,390	576,646
Equity attributable to owners of the Company		405,690	416,721	547,824	576,647
Non-controlling interests		—	—	2,085	1,694
Total equity		<u>405,690</u>	<u>416,721</u>	<u>549,909</u>	<u>578,341</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Capital	Statutory reserve	Other reserve	Retained profits	Translation reserve	Sub-total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(note a)	(note d)					
At 1 January 2012	305,161	11,270	—	28,386	—	344,817	—	344,817
Profit and total comprehensive income for the year	—	—	—	71,612	—	71,612	—	71,612
Appropriation to statutory reserve	—	8,292	—	(8,292)	—	—	—	—
Deemed distribution arising from provision of financial guarantee (note b)	—	—	—	(51,800)	—	(51,800)	—	(51,800)
Dividends declared (note 16)	—	—	—	(14,792)	—	(14,792)	—	(14,792)
Capital injection	55,853	—	—	—	—	55,853	—	55,853
At 31 December 2012	<u>361,014</u>	<u>19,562</u>	<u>—</u>	<u>25,114</u>	<u>—</u>	<u>405,690</u>	<u>—</u>	<u>405,690</u>
Profit and total comprehensive income for the year	—	—	—	78,110	—	78,110	—	78,110
Appropriation to statutory reserve	—	3,790	—	(3,790)	—	—	—	—
Deemed distribution arising from provision of financial guarantee (note b)	—	—	—	(34,100)	—	(34,100)	—	(34,100)
Dividends declared (note 16)	—	—	—	(32,979)	—	(32,979)	—	(32,979)
At 31 December 2013	<u>361,014</u>	<u>23,352</u>	<u>—</u>	<u>32,355</u>	<u>—</u>	<u>416,721</u>	<u>—</u>	<u>416,721</u>
Profit for the year	—	—	—	131,789	—	131,789	(55)	131,734
Other comprehensive expense for the year	—	—	—	—	(61)	(61)	(7)	(68)
Total comprehensive income (loss) for the year	—	—	—	131,789	(61)	131,728	(62)	131,666
Appropriation to statutory reserve	—	3,176	—	(3,176)	—	—	—	—
Deemed distribution arising from provision of financial guarantee (note b)	—	—	—	(65,200)	—	(65,200)	—	(65,200)
Dividends declared (note 16)	—	—	—	(29,845)	—	(29,845)	—	(29,845)
Capital injection	94,420	—	—	—	—	94,420	—	94,420
Capital injection from non-controlling shareholders upon incorporation of a subsidiary (note c)	—	—	—	—	—	—	2,147	2,147
At 31 December 2014	<u>455,434</u>	<u>26,528</u>	<u>—</u>	<u>65,923</u>	<u>(61)</u>	<u>547,824</u>	<u>2,085</u>	<u>549,909</u>
Profit for the period	—	—	—	130,160	—	130,160	(269)	129,891
Other comprehensive expense for the period	—	—	—	—	(1,100)	(1,100)	(122)	(1,222)
Total comprehensive income (loss) for the period	—	—	—	130,160	(1,100)	129,060	(391)	128,669
Appropriation to statutory reserve	—	16,376	—	(16,376)	—	—	—	—
Dividends declared (note 16)	—	—	—	(147,381)	—	(147,381)	—	(147,381)
Capital injection	47,144	—	—	—	—	47,144	—	47,144
Capital contribution	—	—	607,109	—	—	607,109	—	607,109
Group reorganisation (note d)	(502,577)	—	(104,532)	—	—	(607,109)	—	(607,109)
At 30 June 2015	<u>1</u>	<u>42,904</u>	<u>502,577</u>	<u>32,326</u>	<u>(1,161)</u>	<u>576,647</u>	<u>1,694</u>	<u>578,341</u>
At 31 December 2013	<u>361,014</u>	<u>23,352</u>	<u>—</u>	<u>32,355</u>	<u>—</u>	<u>416,721</u>	<u>—</u>	<u>416,721</u>
Profit and total comprehensive income for the period	—	—	—	35,437	—	35,437	—	35,437
Appropriation to statutory reserve	—	3,176	—	(3,176)	—	—	—	—
Deemed distribution arising from provision of financial guarantee	—	—	—	(64,294)	—	(64,294)	—	(64,294)
Dividends declared	—	—	—	(29,845)	—	(29,845)	—	(29,845)
Capital injection	29,681	—	—	—	—	29,681	—	29,681
At 30 June 2014 (unaudited)	<u>390,695</u>	<u>26,528</u>	<u>—</u>	<u>(29,523)</u>	<u>—</u>	<u>387,700</u>	<u>—</u>	<u>387,700</u>

Notes:

- (a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, PRC subsidiary is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiary while the amounts and allocation basis are decided by their board of directors annually, until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that such fund is maintained at a minimum of 25% of the registered capital.
- (b) As set out in note 34, the Group had provided financial guarantees to 振石控股集團有限公司 (Zhenshi Holding Group Co., Ltd.) (“Zhenshi Group”), which was one of the shareholders of Hengshi Fiberglass before the completion of Group Reorganisation, and certain related parties, which exposes the Group to credit risk amounted to RMB1,133,428,000, RMB867,242,000, RMB1,140,000,000 and nil as at 31 December 2012, 2013, 2014 and 30 June 2015, respectively, which are the maximum amount that the Group could be required to settle under those financial guarantee arrangements for the utilised amounts if that amount is claimed by the counterparties to the guarantees. Fair value of the financial guarantee contracts granted are considered as deemed distribution to its then shareholder and recorded in retained profits. Upon the completion of Group Reorganisation in April 2015, Zhenshi Group was no longer a shareholder of Hengshi Fiberglass. As Mr. Zhang Yuqiang, one of the controlling shareholders, has controlling interest in Zhenshi Group, it remains a related party of the Group.
- (c) On 10 December 2014, Hengshi Egypt was established by Hengshi Fiberglass, 振石集團華美新材料有限公司 (Zhenshi Group Huamei New Materials Co., Ltd.) (“Huamei New Materials (華美新材料)”), (formerly known as 振石集團華美複合新材料有限公司 (Zhenshi Group Huamei New Composite Materials Co., Ltd.)), and 浙江華駿投資有限公司 (Zhejiang Huajun Investment Co., Ltd.) (“Zhejiang Huajun (浙江華駿)”). Mr. Zhang Yuqiang has controlling interest in Huamei New Materials and Zhejiang Huajun and therefore they are related parties of the Group. The paid-in capital of Hengshi Egypt was USD3,500,000. Huamei New Materials and Zhejiang Huajun, both are the non-controlling shareholders of Hengshi Egypt, collectively holding 10% equity interest in Hengshi Egypt.
- (d) The other reserve in the consolidated statements of financial position as at 30 June 2015 represented the net effect of the following:
- (i) Capital contribution arising from the amounts of RMB607,109,000 contributed by the shareholders of the Company in April 2015 as to facilitate the Hengshi Fiberglass Acquisition (as defined in note 2); and
 - (ii) The paid-in capital of Hengshi Fiberglass of RMB502,577,000 less the consideration of RMB607,109,000 paid for the acquisition of Hengshi Fiberglass as a result of the business combination under common control in April 2015.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Operating activities					
Profit before tax	77,453	83,454	147,479	38,954	142,797
Adjustments for:					
Allowance for doubtful debts	2,500	—	508	448	8,139
Reversal of allowance for doubtful debts	—	(1,700)	—	—	—
Gain on release of financial guarantee contracts	(34,900)	(47,600)	(38,200)	(15,800)	(65,300)
Allowance for inventories	9,104	1,246	944	75	214
Reversal of allowance for inventories	—	—	(317)	—	—
(Gain) loss on financial instruments at FVTPL	—	(5,800)	17,200	17,900	(7,520)
Depreciation of property, plant and equipment	41,871	42,318	43,837	21,588	24,078
Release of prepaid lease payments ...	436	436	644	249	388
Gain on disposal of property, plant and equipment	—	(77)	(5,843)	(47)	—
Gain on disposal of prepaid lease payments	—	—	(11,271)	—	—
Finance costs	30,086	34,174	25,507	13,406	10,727
Bank interest income	(4,418)	(3,044)	(1,732)	(235)	(635)
Interest income on loans to					
- a shareholder	(5,663)	(9,464)	(3,285)	(1,514)	(2,901)
- other related parties	(5,747)	(13,808)	(13,268)	(8,297)	—
Operating cash flows before movement in working capital	110,722	80,135	162,203	66,727	109,987
Decrease (increase) in inventories ...	(37,248)	23,185	(11,272)	5,931	(15,818)
Increase in trade and other receivables	(20,477)	(2,771)	(44,612)	(25,538)	(144,098)
Decrease (increase) in bills receivables	21,679	(10,720)	9,685	(557)	(2,315)
(Increase) decrease in amounts due from other related parties	(2,201)	(21,115)	(41,692)	(6,715)	20,280
(Increase) decrease in amount due from a shareholder	—	(408)	(1,522)	(13,959)	1,930
Decrease (increase) in financial assets at FVTPL	—	400	3,400	1,300	—
(Decrease) increase in trade and other payables	(4,456)	(4,636)	3,242	11,639	22,337
Increase (decrease) in bills payables	64,226	(167,902)	465	30,000	103,480
Increase (decrease) in amounts due to other related parties	2,101	6,492	(2,395)	16,663	36,236
Increase (decrease) in amount due to a shareholder	—	67,435	(62,771)	(67,435)	(4,664)
Increase (decrease) in financial liabilities at FVTPL	—	—	—	—	(2,220)
Cash generated from (used in) operations	134,346	(29,905)	14,731	18,056	125,135
PRC enterprise income tax paid	(10,199)	(5,975)	(13,106)	(5,464)	(18,699)
Net cash from (used in) operating activities	124,147	(35,880)	1,625	12,592	106,436

NOTES	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Investing activities					
Purchase of property, plant and equipment	(3,843)	(11,371)	(123,262)	(41,970)	(94,851)
Deposits paid for acquisition of property, plant and equipment	(2,003)	(1,620)	(7,447)	(5,281)	(10,201)
Proceeds on disposal of property, plant and equipment	—	217	13,135	—	—
Purchase of prepaid lease payments	—	—	(15,613)	—	—
Proceeds on disposal of prepaid lease payments	—	—	12,565	—	—
Interest received from bank deposits	4,418	3,044	1,732	235	635
Interest received from related parties	5,747	13,808	13,268	8,297	—
Interest received from a shareholder	5,663	9,464	3,285	1,514	2,901
Receipt of government grant recognised as deferred revenue	—	—	3,000	—	—
Advance to an independent third party (note)	—	(82,000)	—	—	—
Repayment from an independent third party (note)	—	82,000	—	—	—
Advance to related parties	(1,146,744)	(448,990)	(97,579)	(85,449)	(509)
Repayment from related parties	1,089,520	354,572	360,339	133,600	—
Advance to a shareholder	(771,234)	(1,289,156)	(1,107,184)	(379,303)	(170,700)
Repayment from a shareholder	771,234	1,110,206	1,086,134	558,191	370,700
Placement of pledged bank deposits	(269,503)	(20,928)	(221,589)	(15,632)	(162,278)
Withdrawal of pledged bank deposits	206,681	189,598	189,371	886	61,323
Net cash (used in) from investing activities	<u>(110,064)</u>	<u>(91,156)</u>	<u>110,155</u>	<u>175,088</u>	<u>(2,980)</u>
Financing activities					
New bank borrowings raised	630,708	672,596	830,383	335,345	531,150
Repayment of bank borrowings	(598,208)	(602,346)	(921,834)	(475,580)	(515,370)
Interest paid	(28,710)	(34,577)	(25,694)	(14,231)	(11,533)
Dividend paid	40 (1,480)	—	(4,492)	(3,298)	(100,238)
Advance from shareholders	—	—	—	—	509
Capital injection	40 42,541	—	36,088	—	—
Consideration paid for acquisition of Hengshi Fiberglass under common control accounted for as deemed distribution	—	—	—	—	(607,109)
Capital contribution	—	—	—	—	607,109
Capital injection from non-controlling shareholders upon incorporation of a subsidiary	40 —	—	2,147	—	—
Net cash from (used in) financing activities	<u>44,851</u>	<u>35,673</u>	<u>(83,402)</u>	<u>(157,764)</u>	<u>(95,482)</u>
Net increase (decrease) in cash and cash equivalents	58,934	(91,363)	28,378	29,916	7,974
Cash and cash equivalents at beginning of the year/period	65,510	124,463	33,412	33,412	61,741
Effect of foreign exchange rate changes	<u>19</u>	<u>312</u>	<u>(49)</u>	<u>(143)</u>	<u>82</u>
Cash and cash equivalents at end of the year/period, represented by bank balances and cash	<u>124,463</u>	<u>33,412</u>	<u>61,741</u>	<u>63,185</u>	<u>69,797</u>

Note: The amount represented a loan advanced to 浙江巨匠房地產集團有限公司 (Zhejiang JuJiang Real Estate Group Co., Ltd.), an independent third party, with carrying amount of RMB82,000,000 in 2013, which was unsecured, interest-free and fully repaid during the same year.

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 23 February 2015. The registered office of the Company is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The principle place of business is No.1 Guang Yun South Road, Tongxiang Economic Development Zone, Tongxiang, Zhejiang Province, the PRC. The Company is an investment holding company and the Group is principally engaged in the manufacture and sales of fiberglass fabrics.

The Company's immediate and ultimate holding company is Huachen Investment Limited, a company incorporated in British Virgin Islands, which is controlled by Mr. Zhang Yuqiang and Mr. Zhang Jiankan, the son of Mr. Zhang Yuqiang acting in concert (collectively known as the "Controlling Shareholders"). The Company changed its name from Hengshi Holdings to China Hengshi Foundation Company Limited (中國恒石基業有限公司) on 7 May 2015.

The Financial Information is presented in RMB, which is the same as the functional currency of the Company.

2. REORGANISATION AND BASIS OF PRESENTATION OF THE FINANCIAL INFORMATION

The Company was incorporated to act as the holding company of the Group for the listing on the Stock Exchange. The authorised share capital of the Company was USD50,000 divided into 50,000 ordinary shares of USD1.0 each. On 23 February 2015, one subscriber share was issued and then transferred to Huachen Investment Limited ("Huachen Investment"), which was wholly owned by Mr. Zhang Yuqiang, the founder and one of the Controlling Shareholders of the Group, for a consideration of USD1.0 immediately. On the same date, the Company issued 93,579 shares to Huachen Investment and 5,421 shares to Huakai Investment Ltd. ("Huakai Investment"), which was wholly owned by Mr. Zhang Jiankan, the son of Mr. Zhang Yuqiang. Huachen Investment and Huakai Investment owns 94.579% and 5.421% equity interest in the Company.

Huaxu Investment Limited ("Huaxu Investment") was incorporated in the BVI on 4 March 2015 with limited liability. On 6 March 2015, Huaxu Investment allotted one subscriber share to the Company, pursuant to which Huaxu Investment became a wholly owned subsidiary of the Company.

Huajin Capital Limited ("Huajin Capital") was incorporated under the laws of Hong Kong on 20 March 2015 with limited liability. On the same day, Huajin Capital allotted one subscriber share to Huaxu Investment, pursuant to which Huajin Capital became a wholly-owned subsidiary of Huaxu Investment.

On 1 April 2015, Huachen Investment transferred 40% and 10.632% equity interest of the Company to certain companies beneficially owned by certain individual shareholders and Huakai Investment, respectively. Huachen Investment and Huakai Investment owns 43.947% and 16.053% equity interest of the Company since then.

On 1 April 2015, Mr. Zhang Yuqiang transferred his 4.05% equity interest in Huachen Investment to certain individuals and Mr. Zhang Yuqiang owns 95.95% equity interest of Huachen Investment since then.

As part of the Group Reorganisation, on 15 April 2015, Huajin Capital entered into an equity transfer agreement to acquire all the shares of Hengshi Fiberglass from its then shareholders for a total cash consideration of US\$99,173,000 (equivalent to RMB607,109,000) ("Hengshi Fiberglass Acquisition"). Based on subsequent approvals by the relevant government authorities, the Hengshi Fiberglass Acquisition was completed in April 2015, upon which Hengshi Fiberglass became a wholly-owned subsidiary of Huajin Capital.

To facilitate the Hengshi Fiberglass Acquisition, the shareholders of the Company in April 2015 made capital contribution of US\$99,173,000 (equivalent to RMB607,109,000) to the Company and was credited in other reserve as at 30 June 2015.

Upon completion of the above steps, the Company was owned and controlled by Mr. Zhang Yuqiang and Mr. Zhang Jiankan as to 42.16% and 16.03%, totalling 58.22%, and was owned by certain individual

shareholders as to 41.78%. The Company became the holding company of the companies comprising the Group. The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation was under common control of the Controlling Shareholders, which was completed by incorporating the Company, Huaxu Investment and Huajin Capital as parent of Hengshi Fiberglass, is regarded as a continuing entity.

Accordingly, the Financial Information relating to the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Track Record Period includes the results of operations and cash flows of the companies now comprising the Group as if the current group structure had been in existence and remained unchanged throughout the Track Record Period or since their respective dates of incorporation or establishment where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2012, 2013, 2014 and 30 June 2015 have been prepared to present the assets and liabilities of the companies now, comprising the Group as if the current group structure had been in existence as at the respective dates, taking into account the respective dates of incorporation.

All material intra-group transactions and balances have been eliminated on consolidation.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

For the purpose of preparing and presenting the Financial Information for the Track Record Period, the Group has adopted all the IFRSs which are effective for the financial year beginning on 1 January 2015 and consistently applied throughout the Track Record Period.

As the date of this report, the following new and revised IFRSs have been issued which are not yet effective. The Group has not early adopted these IFRSs.

New and revised IFRSs issued but not yet effective

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
Amendments to IAS 1	Disclosure Initiative ²
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ²
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants ²
Amendments to IAS 27	Equity Method in Separate Financial Statements ²
Amendments to IFRSs	Annual Improvements to IFRSs 2012- 2014 Cycle ²
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception ²
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2016

Except as disclosed below, the application of the new and revised IFRSs issued but not yet effective has had no material impact on the Group's financial performance and positions and/or the disclosures when they became effective.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The management of the Group anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and financial liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be

entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The management of the Group anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Financial Information. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation of its property, plant and equipment. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the assets and accordingly, the management of the Group does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Financial Information.

4. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with the following accounting policies which conform to IFRSs. These policies have been consistently applied throughout the Track Record Period. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of preparation

The Financial Information has been prepared under the historical cost basis, except for certain financial instrument which is measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability,

the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are within the scope of IAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Merger accounting for business combination involving entities under common control

The Financial Information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling parties.

The net assets of the combining entities or businesses are consolidated using the existing book value from the controlling parties' perspective. No amount is recognised in respects of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interest.

The consolidated statements of profit or loss and other comprehensive income includes the results of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Basis of consolidation

The Financial Information incorporates the financial information of the Company and its subsidiary now comprising the Group.

Subsidiary is an entity controlled by Hengshi Fiberglass. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Hengshi Fiberglass reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial information of subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts, returns and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied.

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes (other than construction in progress as described below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, after taking into account their estimated residual values, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purpose (i.e. construction in progress) are carried at cost, less any recognised impairment loss, if any. Costs include professional fees and, for qualifying assets, borrowing costs. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and managing an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an income in the period in which they are incurred.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity's functional currencies (foreign currencies) are recorded in the respective functional currencies (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purpose of presenting the Financial Information, the assets and liabilities of the Group's foreign operation is translated into RMB using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the date of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (and attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them, if any and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiary, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Research expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable

amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as financial asset at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sale of financial assets that require deliver of assets within the time frame established by regulation or convention in the market place.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Financial asset at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss in the period in which they arise. Fair value is determined in the manner described in note 6.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amounts due from related parties, amount due from a shareholder, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liability as FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss in the period in which they arise. Fair value is determined in the manner described in note 6.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payables, dividend payable, amounts due to related parties, amounts due to shareholders and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37.
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year from the end of each reporting period.

Share of net gain to Hengshi Fiberglass arising from Compensation Agreement (as defined in note 18)

As detailed in note 18, in respect of the expropriation of prepaid lease payment and the buildings, in addition to the total compensation of RMB24,638,000 received during the year ended 31 December 2014, Hengshi Fiberglass was also subject to certain sharing ratio of net gain in the event of Auction (as defined in note 18). Since the occurrence and timing of the Auction is not certain, the management of the Group considers the possible net gain was a contingent asset to Hengshi Fiberglass.

Estimated useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the experiences over the usage of them and also by reference to the relevant industrial norm. If the actual useful lives of them are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful life.

As at 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amount of property, plant and equipment was RMB356,508,000, RMB327,411,000, RMB442,899,000 and RMB490,580,000, respectively.

Estimated allowance for doubtful debt

Trade receivables, amounts due from other related parties and amount due from a shareholder are carried at amortised cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables and amounts due from other related parties and a shareholder. Allowances are applied to trade receivables and amounts due from other related parties and amount due from a shareholder where events or changes in circumstances indicate that the balances may not be collectible. The amount of the allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. Allowance for these receivables is made based on evaluation of collectability by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. If the actual future cash flows were less than expected and where events or changes in circumstances indicate the balances may not be collectible, additional allowance may be required.

As at 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amount of trade receivables was RMB127,706,000 (net of allowance for doubtful debt of RMB12,500,000), RMB137,593,000 (net of allowance for doubtful debt of RMB10,800,000), RMB178,367,000 (net of allowance for doubtful debt of RMB10,100,000), and RMB306,674,000 (net of allowance for doubtful debt of RMB17,500,000) respectively.

As at 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amount of amounts due from other related parties was RMB175,107,000 (without allowance for doubtful debt), RMB290,640,000 (without allowance for doubtful debt), RMB70,128,000 (without allowance for doubtful debt), and RMB49,786,000 (without allowance for doubtful debt), respectively.

As at 31 December 2013, 2014 and 30 June 2015, the carrying amount of amount due from shareholders was RMB179,358,000 (without allowance for doubtful debt), RMB201,930,000 (without allowance for doubtful debt), and RMB1,000 (without allowance for doubtful debt), respectively.

Estimated allowance for inventories

The Group regularly reviews whether there are any indications of write-down of inventories if the carrying amount of an inventory is lower than its net realisable value. The Group tests annually for the write-down of

inventories. The net realisable value have been determined based on the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group also assessed the net realisable value by taking into account whether the cost of inventories may be recoverable by assessing if those inventories are damaged, wholly or partially obsolete, or if their selling prices have declined.

As at 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amount of inventories was RMB96,497,000 (net of allowance for write-down of RMB9,104,000), RMB72,066,000 (net of allowance for write-down of RMB10,150,000), RMB82,711,000 (net of allowance for write-down of RMB8,889,000), and RMB98,315,000 (net of allowance for write-down of RMB8,889,000), respectively.

Fair value of the financial guarantee contracts

For the fair value of the financial guarantee contracts provided to the guaranteed counterparties, assumptions are made by the management of the Group at date of initial recognition, based on the guaranteed amount and the credit spread of the guaranteed counterparties, of which was determined according to their estimated default probability with reference to their credit ratings. The credit spread and risk of default were, therefore, of significant estimation uncertainty. If the risk of default was significantly different from the estimated default probability, the fair value of the financial guarantee contracts at date of initial recognition would be significantly changed.

The financial guarantee contracts are subsequently measured at the higher of the amount of obligation under the contract as determined in accordance with IAS 37 and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

As at 31 December 2012, 2013, 2014 and 30 June 2015, the carrying amount of financial guarantee obligations was amounted to RMB51,800,000, RMB38,300,000, RMB65,300,000 and nil, respectively.

Fair value measurements and valuation processes

The Group's forward foreign currency contracts and the financial guarantee contracts provided to the shareholder and certain related parties are measured at fair value at the end of each reporting period and at the date of initial recognition, respectively. The management of the Group has set up a valuation team, which is headed up by the Chief Financial Officer ("CFO"), to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages Avista Valuation Advisory Limited, ("Avista") independent professional valuer to perform the valuation. The office of Avista is Suite 807, 8th Floor, AXA Centre, 151 Gloucester Road, Wan Chai, Hong Kong.

The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The CFO reports the valuation committee's findings to the management of the Group at the end of each reporting period to explain the cause of fluctuations in the fair value of the assets and liabilities.

As at 31 December 2012, the fair value of the forward foreign currency contracts was estimated at the fair value of zero value. As at 31 December 2013, the fair value of the forward foreign currency contract was estimated at an asset of RMB5,400,000. As at 31 December 2014, the fair value of the forward foreign currency contract was estimated at a liability of RMB15,200,000. As at 30 June 2015, the fair value of the forward foreign currency contracts was estimated at a liability of RMB5,460,000.

6. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to the owners of the Company through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged during the Track Record Period.

The capital structure of the Group consists of borrowings, net of cash and cash equivalents, and equity attributable to owners (comprising capital, reserves and retained profits).

The management of the Group reviews the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividend, raise of new capital as well as the issue of new debts or the redemption of existing debts.

Categories of financial instruments

	As at 31 December			As at
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	2015
				RMB'000
Financial assets at FVTPL	—	5,400	—	—
Loans and receivables (including cash and cash equivalents)	598,076	653,679	547,324	565,130
	<u>598,076</u>	<u>659,079</u>	<u>547,324</u>	<u>565,130</u>
Financial liabilities at FVTPL	—	—	15,200	5,460
Financial guarantee contracts	51,800	38,300	65,300	—
Other financial liabilities	620,360	624,331	480,413	619,714
	<u>672,160</u>	<u>662,631</u>	<u>560,913</u>	<u>625,174</u>

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, amounts due from other related parties, amount due from a shareholder, financial assets at FVTPL, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, dividend payable, amounts due to other related parties, amounts due to shareholders, financial liabilities at FVTPL, financial guarantee contracts and bank borrowings. Details of these financial instruments are disclosed in respective notes.

The risk associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign currency risk management

The Group has foreign currency sales and purchases, which exposes it to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy but use foreign currency forward contracts to hedge against the risk when it is foreseen to be significant. Details of the foreign currency forward contracts entered into by the Group during the Track Record Period are set out in note 26. The management manages the foreign currency risk by closely monitoring the movement of the foreign exchange rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	Assets				Liabilities			
	As at 31 December			As at 30 June	As at 31 December			As at 30 June
	2012	2013	2014	2015	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
United States dollars ("USD")	51,949	88,847	130,509	141,999	3,077	4,535	30,352	17,176
European dollars ("EUR")	60	61	702	71,992	—	—	14,894	446
Japanese Yen ("JPY")	—	—	3	3	—	—	—	—
	<u>52,009</u>	<u>88,908</u>	<u>131,214</u>	<u>213,994</u>	<u>3,077</u>	<u>4,535</u>	<u>45,246</u>	<u>17,622</u>

Foreign currency sensitivity analysis

The Group carries out most of the transactions denominated in USD, EUR and JPY and the Group is mainly exposed to the foreign exchange risk arising from these currencies.

The sensitivity analysis below details the Group's sensitivity to a 5% increase and decrease in USD, EUR and JPY against the functional currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates, except for the impact of the forward foreign currency contracts. A positive (negative) number below indicates an increase (decrease) in profit or equity where the relevant foreign currencies strengthen 5% against functional currencies. For a 5% weakening of the relevant foreign currency against functional currencies, there would be a comparable impact on the profit or equity, and the balances below would be negative.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
USD	2,077	3,584	4,257	5,305
EUR	3	3	(604)	3,040
JPY	—	—	—	—
	<u>2,080</u>	<u>3,587</u>	<u>3,653</u>	<u>8,345</u>

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk management

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 27 and 31 for details of these balances) due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate bank balances, pledged bank deposits and bank borrowings (see notes 27 and 31 for details of these balances).

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of each reporting period. The management does not expect significant change to the deposit interest rate on variable-rate bank balances.

The analysis is prepared assuming the variable-rate bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used for variable-rate bank borrowings and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher and all other variables were held constant, the impact to profit or loss is as follows:

	For the year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Decrease in profit for the year/period	<u>170</u>	<u>595</u>	<u>541</u>	<u>595</u>	<u>1,088</u>

If interest rates had been 50 basis points lower and all other variables were held constant, there would have been equal but opposite impact to profit or loss.

Credit risk management

At the end of each reporting period, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligation is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position; and
- the amount of contingent liabilities in relation to financial guarantees issued by the Group as disclosed in note 34.

The Group's credit risk primarily relates to the its trade and other receivables, bills receivables, amounts due from other related parties, amount due from a shareholder, pledged bank deposits, bank balances and cash and the financial guarantees. The credit risk on pledged bank deposits and bank balances and cash is limited because the majority of the counterparties are banks with high credit ratings or are state owned.

The Group has concentration of credit risk in relation to its trade receivables as follows:

	At 31 December			At 30 June
	2012	2013	2014	2015
Amount due from the largest debtor as a percentage to trade receivables	<u>34%</u>	<u>20%</u>	<u>20%</u>	<u>22%</u>
Total amounts due from the five largest debtors as a percentage to trade receivables	<u>72%</u>	<u>75%</u>	<u>68%</u>	<u>61%</u>

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk. In order to minimise the credit risk, its management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each significant debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that its credit risk is significantly reduced.

The Group has concentration of credit risk in relation to its amounts due from other related parties, of which a significant portion is due from a few counterparties. The management of the Group considers that the credit risk on amounts due from other related parties is limited because they continuously monitor the credit quality and financial conditions of these related parties.

As set out in note 34, the Group had provided financial guarantees to other related parties and a shareholder which exposes the Group to credit risk amounting to RMB1,133,428,000, RMB867,242,000, RMB1,140,000,000, and nil as at 31 December 2012, 2013, 2014 and 30 June 2015, respectively, which are the maximum amount that the Group could be required to settle under those financial guarantee arrangements for the utilised amounts if that amount is claimed by the counterparties to the guarantees. The Group's exposure of these balances were only limited and concentrated to 3, 2 and 2 counterparties as at 31 December 2012, 2013 and 2014, respectively and the credit rating of the counterparties is continuously monitored. As such, the management of the Group is of the view that the credit risk on financial guarantees issued by the Group in this respect is limited.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the management of the Group, which has established an appropriate liquidity management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate at the end of each reporting period.

Liquidity tables

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2012							
Trade and other payables	—	682	7,996	—	—	8,678	8,678
Bills payables	—	22,902	44,800	100,200	—	167,902	167,902
Amounts due to related parties	—	2,261	—	—	—	2,261	2,261
Amounts due to shareholders	—	19	—	—	—	19	19
Bank borrowings — variable rate*	7.21	153	20,238	20,199	—	40,590	40,000
Bank borrowings — fixed rate*	6.42	705	143,504	267,685	—	411,894	401,500
Financial guarantee contracts	—	1,133,428	—	—	—	1,133,428	51,800
		<u>1,160,150</u>	<u>216,538</u>	<u>388,084</u>	<u>—</u>	<u>1,764,772</u>	<u>672,160</u>
As at 31 December 2013							
Trade and other payables	—	6	3,390	—	—	3,396	3,396
Dividend payable	—	32,979	—	—	—	32,979	32,979
Amounts due to related parties	—	8,753	—	—	—	8,753	8,753
Amounts due to shareholders	—	67,453	—	—	—	67,453	67,453
Bank borrowings — variable rate*	6.43	99,998	400	40,940	—	141,338	140,000
Bank borrowings — fixed rate*	6.25	50,941	134,392	195,148	—	380,481	371,750
Financial guarantee contracts	—	867,242	—	—	—	867,242	38,300
		<u>1,127,372</u>	<u>138,182</u>	<u>236,088</u>	<u>—</u>	<u>1,501,642</u>	<u>662,631</u>
As at 31 December 2014							
Trade and other payables	—	13	38,039	—	—	38,052	38,052
Bills payables	—	—	1,220	9,245	—	10,465	10,465
Amounts due to related parties	—	6,914	—	—	—	6,914	6,914
Amounts due to shareholders	—	4,683	—	—	—	4,683	4,683
Bank borrowings — variable rate*	5.96	178	1,263	105,271	30,004	136,716	127,209
Bank borrowings — fixed rate*	6.37	20,994	118,160	89,927	91,018	320,099	293,090
Financial guarantee contracts	—	1,140,000	—	—	—	1,140,000	65,300
		<u>1,172,782</u>	<u>158,682</u>	<u>204,443</u>	<u>121,022</u>	<u>1,656,929</u>	<u>545,713</u>
As at 30 June 2015							
Trade and other payable	—	1,292	34,685	—	—	35,977	35,977
Bill payables	—	47,933	54,054	1,958	—	103,945	103,945
Amounts due to related parties	—	43,169	—	—	—	43,169	43,169
Amounts due to shareholders	—	509	—	—	—	509	509
Bank borrowings — variable rate*	5.28%	1,128	2,256	256,955	6,665	267,004	256,114
Bank borrowings — fixed rate*	5.35%	803	1,606	185,169	—	187,578	180,000
		<u>94,834</u>	<u>92,601</u>	<u>444,082</u>	<u>6,665</u>	<u>638,182</u>	<u>619,714</u>

* For the Group's interest bearing borrowings, the weighted average interest rate at the end of each reporting period is used for undiscounted cash flows analysis.

The amounts included above for non-derivative financial liabilities bearing variable interest rate is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the Group considers that it is more likely than not that such amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses. As represented by the management of the Group, the above mentioned guarantees will be released prior to completion of the listing.

The Group has access to financing facilities as described below, of which RMB27,500,000, RMB27,750,000, RMB129,201,000 and RMB227,454,000 were unused as at 31 December 2012, 2013, 2014 and 30 June 2015, respectively. The Group expects to meet its other obligations from operating cash flows and proceeds, of maturing financial assets.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of each reporting period.

	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3 months to 1 year</u>	<u>Total undiscounted cash flows</u>	<u>Total carrying amount</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2013					
Gross settled:					
Foreign currency forward contracts					
- inflow	19,100	38,100	224,200	281,400	274,900
- outflow	(18,700)	(37,400)	(219,600)	(275,700)	(269,500)
	<u>400</u>	<u>700</u>	<u>4,600</u>	<u>5,700</u>	<u>5,400</u>
As at 31 December 2014					
Gross settled:					
Foreign currency forward contracts					
- inflow	29,200	47,500	293,800	370,500	363,900
- outflow	(30,100)	(49,200)	(306,700)	(386,000)	(379,100)
	<u>(900)</u>	<u>(1,700)</u>	<u>(12,900)</u>	<u>(15,500)</u>	<u>(15,200)</u>
As at 30 June 2015					
Gross settled:					
Foreign currency forward contracts					
- inflow	33,400	66,000	97,900	197,300	196,300
- outflow	34,200	(67,700)	(100,900)	(202,800)	(201,760)
	<u>(800)</u>	<u>(1,700)</u>	<u>(3,000)</u>	<u>(5,500)</u>	<u>(5,460)</u>

Fair value measurements***Fair value measurements recognised in the consolidated statements of financial position that are measured at fair value on a recurring basis***

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

<u>Financial assets/liabilities</u>	<u>Classified as</u>	<u>Fair value RMB'000</u>	<u>Fair value hierarchy</u>	<u>Basis of fair value measurement / valuation technique(s) and key input(s)</u>
As at 31 December 2013				
				Discounted cash flow.
				Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
Foreign currency contracts	Financial assets at FVTPL	Assets - 5,400	Level 2	
As at 31 December 2014				
				Discounted cash flow.
				Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
Foreign currency contracts	Financial liabilities at FVTPL	Liabilities - 15,200	Level 2	
As at 30 June 2015				
				Discounted cash flow.
				Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
Foreign currency contracts	Financial liabilities at FVTPL	Liabilities -5,460	Level 2	

The management of the Group considers that the carrying amounts of other financial assets and liabilities recorded at amortised cost in the Financial Information approximated their fair values.

7. REVENUE AND SEGMENT INFORMATION

The Group has been operating in one operating and reportable segment, being manufacture and sale of fiberglass fabrics. The management of the Group, being the General Manager who is the chief operating decision maker, to make decisions based on the Financial Information of the Group prepared in accordance with IFRS about resources allocation and performance assessment.

The accounting policies of the operating segment are the same as the Group's accounting policies described in note 4.

Segment assets and liabilities

No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group's information about its non-current assets, excluding deferred tax assets, by location of assets are detailed below.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
The PRC	377,197	347,281	478,013	372,402	502,513
Other	N/A	N/A	3,918	—	29,763
Total	<u>377,197</u>	<u>347,281</u>	<u>481,931</u>	<u>372,402</u>	<u>532,276</u>

Entity-wide disclosures

Revenue from major products

The following is an analysis of revenue from its major products during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Multi-axial fabrics	344,374	296,236	488,122	216,262	366,265
Uni-direction fabrics	64,663	61,908	132,478	42,161	102,990
Woven roving combo mat	22,416	19,567	20,708	9,509	10,295
Stitched mat	5,403	8,795	8,924	4,558	1,898
E/PP compofil fabrics	4,107	18,887	28,368	20,308	18,730
	<u>440,963</u>	<u>405,393</u>	<u>678,600</u>	<u>292,798</u>	<u>500,178</u>

The following is an analysis of revenue by products based on contract terms during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Products specified in contracts for wind turbine					
blade sector	331,133	301,670	563,940	237,762	432,715
Others	109,830	103,723	114,660	55,036	67,463
	<u>440,963</u>	<u>405,393</u>	<u>678,600</u>	<u>292,798</u>	<u>500,178</u>

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers determined based on the location of its immediate customers during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Overseas markets					
Europe	173,466	138,773	195,962	96,738	131,933
North America	104,978	77,451	136,468	70,862	94,372
Asia (<i>note a</i>)	27,974	59,283	74,006	37,517	8,944
Latin America	875	2,857	5,853	1,835	1,617
Australia	701	555	334	242	104
	307,994	278,919	412,623	207,194	236,970
PRC market (<i>note b</i>)	132,969	126,474	265,977	85,604	263,208
	<u>440,963</u>	<u>405,393</u>	<u>678,600</u>	<u>292,798</u>	<u>500,178</u>

Notes:

- (a) Asia includes Hong Kong, Macau and Taiwan, but exclude the PRC.
(b) PRC market excludes Hong Kong, Macau and Taiwan.

Information about major customers

The following table sets out the revenue from customers contributing over 10% of the total sales of the Group during the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Customer A	148,633	108,265	127,393	57,523	89,129
Customer B	105,749	83,442	137,520	78,501	56,285
Customer C	<i>note</i>	50,960	81,117	40,820	<i>note</i>
Customer D	<i>note</i>	<i>note</i>	<i>note</i>	<i>note</i>	75,074
Customer E	<i>note</i>	<i>note</i>	<i>note</i>	<i>note</i>	66,273
	<u>254,382</u>	<u>242,667</u>	<u>346,030</u>	<u>176,844</u>	<u>286,761</u>

Note: The Group carried out transactions with this customer but the amount of transactions was less than 10% of revenue for the respective year/period.

8. OTHER INCOME

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Bank interest income	4,418	3,044	1,732	235	635
Interest income from other related parties (note a)	5,747	13,808	13,268	8,297	—
Interest income from a shareholder (note a)	5,663	9,464	3,285	1,514	2,901
Government subsidy (note b)	3,238	4,747	3,994	256	174
Scrap sales	3,633	3,554	2,597	1,385	2,656
Rental income (note c)	2,736	2,711	1,385	1,104	147
Sundry income	18	109	604	83	5
	<u>25,453</u>	<u>37,437</u>	<u>26,865</u>	<u>12,874</u>	<u>6,518</u>

Notes:

- (a) Details of interest income from other related parties and a shareholder were set out in note 41.
- (b) The government grants represented the amount received from the local government by Hengshi Fiberglass. During the years ended 31 December 2012, 2013, 2014 and periods ended 30 June 2014 and 2015, government grants of approximately RMB3,238,000, RMB4,747,000, RMB3,994,000, and RMB256,000 (unaudited), and RMB174,000, respectively, which were unconditional and represented incentive for business development granted to Hengshi Fiberglass.
- (c) The rental income was related to leasing of certain buildings held by the Group to 巨石集團有限公司 (Jushi Group Co., Ltd.) ("Jushi Group") and 中國巨石股份有限公司 (China Jushi Co., LTD) ("China Jushi 中國巨石") formerly known as China Fiberglass Co., LTD), in which Mr. Zhang Yuqiang has significant influence and are therefore related parties of the Group, and 振石集團浙江宇石國際物流有限公司 (Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd.) ("Yushi International"), in which Mr. Zhang Yuqiang has controlling interest and is therefore a related party of the Group, and was determined based on the terms agreed between the relevant parties. The lease agreements with Jushi Group and China Jushi were terminated during the year ended 31 December 2014 as the Group has transferred the related buildings to the local government authority. Details are set out in note 18. Rental income for the six months ended 30 June 2015 refers to the lease agreement of certain buildings entered into with Yushi International.

9. OTHER GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Gain (loss) on financial instruments at FVTPL	—	5,800	(17,200)	(17,900)	7,520
Allowance for doubtful debts	(2,500)	—	(508)	(448)	(8,139)
Reversal of allowance for doubtful debts	—	1,700	—	—	—
Gain on release of financial guarantee contracts ..	34,900	47,600	38,200	15,800	65,300
Gain on disposal of property, plant and equipment	—	77	5,843	47	—
Gain on disposal of prepaid lease payments	—	—	11,271	—	—
Foreign exchange (loss) gain, net	(62)	(4,256)	(578)	1,205	259
	<u>32,338</u>	<u>50,921</u>	<u>37,028</u>	<u>(1,296)</u>	<u>64,940</u>

10. OTHER EXPENSES

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Rental expense	605	605	421	280	101
Donation	—	—	400	400	—
Listing expenses	—	—	2,199	—	8,622
Others	131	63	73	23	3
	<u>736</u>	<u>668</u>	<u>3,093</u>	<u>703</u>	<u>8,726</u>

11. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on bank borrowings wholly repayable within five years	30,086	34,174	26,041	13,406	12,165
Less: amounts capitalised in construction in progress	—	—	534	—	1,438
	<u>30,086</u>	<u>34,174</u>	<u>25,507</u>	<u>13,406</u>	<u>10,727</u>

The weighted average capitalisation rate is nil, nil, 6.78%, nil (unaudited) and 6.78%, for each of the years ended 31 December 2012, 2013, 2014, periods ended 30 June 2014 and 2015, respectively.

12. PROFIT BEFORE TAX

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before tax has been arrived at after charging (crediting)					
Auditors' remuneration	23	38	38	19	19
Directors' emoluments (<i>note 13</i>)	—	—	—	—	727
Other staff costs	27,944	29,811	44,388	16,550	37,978
Retirement benefit schemes contribution for other staff	1,681	1,824	1,946	1,054	1,949
Total staff costs	29,625	31,635	46,334	17,604	40,654
Release of prepaid lease payments	436	436	644	249	388
Depreciation of property, plant and equipment ..	41,871	42,318	43,837	21,588	24,078
Total depreciation and amortisation	42,307	42,754	44,481	21,837	24,466
Allowance for doubtful debts	2,500	—	508	448	8,139
Reversal of allowance for doubtful debts	—	(1,700)	—	—	—
Allowance for write-downs of inventories (recognised in cost of sales)	9,104	1,246	944	75	214
Reversal of allowance for write-downs of inventories (recognised in cost of sales)	—	—	(317)	—	—
Gain on release of financial guarantee contract	(34,900)	(47,600)	(38,200)	(15,800)	(65,300)
Gain on disposal of property, plant and equipment	—	77	5,843	47	—
Gain on disposal of prepaid lease payments	—	—	11,271	—	—
Cost of inventories recognised as expenses	335,986	320,952	487,941	214,649	349,507
Operating rental in respect of rented premises ...	—	—	342	—	495

13. DIRECTORS' EMOLUMENTS

The following represents the directors of the Hengshi Fiberglass who had become the directors of the Company after the incorporation of the Company in February 2015. The emoluments paid or payable to each of the directors by the Group during the Track Record Period are as follows.

	Fees	Salaries and other benefits	Performance related bonus (note d)	Retirement benefits schemes contribution	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2012					
Executive directors					
Mr. Zhang Yuqiang (note c)	—	—	—	—	—
Mr. Tang Hsinhua (note c)	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2013					
Executive directors					
Mr. Zhang Yuqiang (note c)	—	—	—	—	—
Mr. Tang Hsinhua (note c)	—	—	—	—	—
Mr. Zhang Jiankan (note a)	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Year ended 31 December 2014					
Executive directors					
Mr. Zhang Yuqiang (note c)	—	—	—	—	—
Mr. Tang Hsinhua (note c)	—	—	—	—	—
Mr. Zhang Jiankan (note a)	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Period ended 30 June 2014 (unaudited)					
Executive directors					
Mr. Zhang Yuqiang (note c)	—	—	—	—	—
Mr. Tang Hsinhua (note c)	—	—	—	—	—
Mr. Zhang Jiankan (note a)	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Period ended 30 June 2015					
Executive directors					
Mr. Zhou Tingcai (note b)	—	203	11	7	221
Ms. Huang Junjun (note b)	—	221	28	7	256
Mr. Zhang Jiankan (note a)	—	—	—	—	—
	<u>—</u>	<u>424</u>	<u>39</u>	<u>14</u>	<u>477</u>
Non-executive directors					
Mr. Zhang Yuqiang (note c)	250	—	—	—	250
Mr. Tang Hsinhua (note c)	—	—	—	—	—
Mr. Zhang Jiankan (note a)	—	—	—	—	—
Mr. Wang Yuan (note c)	—	—	—	—	—
	<u>250</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>250</u>

Notes:

- (a) Mr. Zhang Jiankan was appointed as an executive director of the Group on 11 September 2013. He was re-designated as a non-executive director of the Company in February 2015.

- (b) Mr. Zhou Tingcai was appointed as General Manager of the Company in November 2014 and further appointed as an executive director of the Company in May 2015. Ms. Huang Junjun was appointed as an executive director and Deputy General Manager of the Company in May 2015.
- (c) Mr. Zhang Yuqiang was an executive director of Hengshi Fiberglass during the Track Record Period and was appointed as Chairman and non-executive director of the Company in February 2015, while Mr. Tang Hsinhua was an executive director of Hengshi Fiberglass during the Track Record Period and was appointed as non-executive director of the Company in May 2015. Mr. Wang Yuan were appointed as non-executive director of the Company in May 2015.
- (d) Performance related bonus is determined with reference to the Group's operating results, individual performance and comparable market statistics.

The directors' emoluments during each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 (unaudited) and some of the directors' emoluments during the six months ended 30 June 2015 were borne by the Zhenshi Group for the services provided to Zhenshi Group and its subsidiaries and the Group as a whole and there is no reasonable basis to allocate the remuneration related to services provided to the Group during each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 (unaudited) and 2015. During the years ended 31 December 2012, 2013 and 2014 (unaudited) and the period ended 30 June 2014 and 2015, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of Company waived any emoluments during the Track Record Period.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none of them was director of the Group during each of the years ended 31 December 2012, 2013 and 2014 and the six months ended 30 June 2014 (unaudited) while three of them were directors during the six months ended 30 June, 2015. The emoluments of the remaining non-director individuals were as follows.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Salaries and other benefits	1,017	923	950	467	431
Performance related bonus (<i>note</i>)	171	165	180	86	46
Retirement benefits schemes contribution	28	26	34	16	12
Total	<u>1,216</u>	<u>1,114</u>	<u>1,164</u>	<u>569</u>	<u>489</u>

Note: Performance related bonus is determined with reference to the Group's operating results, individual performance and comparable market statistics.

Their emoluments were within the following bands.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
				(unaudited)	
Less than HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>	<u>2</u>

During the Track Record Period, no remuneration was paid to the five individuals with the highest emoluments of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of them waived any emoluments during the Track Record Period.

15. INCOME TAX EXPENSE

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current tax				(unaudited)	
Enterprise Income Tax (the "EIT") in the PRC ...	7,841	4,813	19,311	6,358	12,436
Under provision in prior years/period in the PRC	87	173	31	31	405
	7,928	4,986	19,342	6,389	12,841
Deferred tax (credit) charge (note 20)	(2,087)	358	(3,597)	(2,872)	65
	<u>5,841</u>	<u>5,344</u>	<u>15,745</u>	<u>3,517</u>	<u>12,906</u>

The income tax expense during the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before tax	77,453	83,454	147,479	38,954	142,797
Tax at PRC EIT rate of 25%	19,363	20,864	36,870	9,739	35,699
Tax effect of expenses not deductible for tax purposes	107	111	466	19	309
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	(1,155)	(455)	(1,475)	—	—
Tax effect of income not taxable for tax purpose ...	(8,725)	(11,900)	(9,550)	(3,950)	(16,325)
Deferred tax on withholding tax on undistributed earnings of PRC subsidiary	—	—	—	—	900
Income tax at concessionary rate	(3,836)	(3,449)	(10,597)	(2,322)	(8,082)
Under provision in prior years	87	173	31	31	405
Income tax expense	<u>5,841</u>	<u>5,344</u>	<u>15,745</u>	<u>3,517</u>	<u>12,906</u>

Provision for the PRC Enterprise Income Tax during the Track Record Period was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiary operated in the PRC.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiary is 25%.

Hengshi Fiberglass obtained "High and New Technology Enterprise" status that entitles it a preferential tax rate of 15% from the years 2012 to 2014 according to PRC Tax law. Hengshi Fiberglass is in the process of obtaining the renewal for preferential tax rate of 15%.

The corporate tax rate of Hengshi Egypt is 25%, no provision for Egyptian Corporate Tax has been made as Hengshi Egypt had no assessable profits for the period from its establishment to the year ended 31 December 2014 and during the six months ended 30 June 2015.

16. DIVIDENDS

During the Track Record Period, dividends represented the dividends declared by Hengshi Fiberglass totalling RMB14,792,000, RMB32,979,000, RMB29,845,000, RMB52,381,000 and RMB95,000,000 to its then shareholders prior to the completion of the Group Reorganisation on 29 August 2012, 29 November 2013, 28 May 2014, 25 February 2015 and 14 April 2015, respectively, out of which amounting to RMB13,312,000, RMB29,681,000, RMB28,651,000 and RMB47,143,000 were reinvested by its then shareholders and transferred to capital of Hengshi Fiberglass on 8 November 2012, 26 January 2014, 17 July 2014 and 24 March 2015, respectively. The rest of the declared dividend were paid to its then shareholders.

17. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record period is based on the following data:

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>71,612</u>	<u>78,110</u>	<u>131,789</u>	<u>35,437</u>	<u>130,160</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u>486,506,853</u>	<u>538,744,312</u>	<u>624,471,074</u>	<u>576,919,678</u>	<u>718,127,866</u>

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2014 (unaudited) and 2015 is calculated based on the assumption that the Group Reorganisation has been effective on 1 January 2012, take into consideration 749,900,000 shares issued pursuant for the capitalization done on 17 August 2015.

No diluted earnings per share is presented for the Track Record Period as there was no potential ordinary share in issue.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture and office equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2012	79,172	387,042	675	2,304	51,660	520,853
Additions	92	721	—	39	1,817	2,669
Transfers	52,249	—	—	—	(52,249)	—
At 31 December 2012	<u>131,513</u>	<u>387,763</u>	<u>675</u>	<u>2,343</u>	<u>1,228</u>	<u>523,522</u>
Additions	—	1,220	—	—	12,141	13,361
Transfers	—	13,335	—	33	(13,368)	—
Disposals	—	—	(347)	(8)	—	(355)
At 31 December 2013	<u>131,513</u>	<u>402,318</u>	<u>328</u>	<u>2,368</u>	<u>1</u>	<u>536,528</u>
Additions	3,206	13,449	96	305	149,561	166,617
Transfers	—	27,608	—	—	(27,608)	—
Disposals	(12,218)	(4,330)	(96)	(977)	—	(17,621)
At 31 December 2014	<u>122,501</u>	<u>439,045</u>	<u>328</u>	<u>1,696</u>	<u>121,954</u>	<u>685,524</u>
Additions	464	3,538	182	546	67,095	71,825
Transfers	—	88,441	—	157	(88,598)	—
Exchange adjustments	—	—	—	(2)	(64)	(66)
At 30 June 2015	<u>122,965</u>	<u>531,024</u>	<u>510</u>	<u>2,397</u>	<u>100,387</u>	<u>757,283</u>
DEPRECIATION						
At 1 January 2012	18,521	104,545	229	1,848	—	125,143
Provided for the year	5,242	36,341	64	224	—	41,871
At 31 December 2012	<u>23,763</u>	<u>140,886</u>	<u>293</u>	<u>2,072</u>	<u>—</u>	<u>167,014</u>
Provided for the year	6,206	36,016	31	65	—	42,318
Eliminated on disposals	—	—	(208)	(7)	—	(215)
At 31 December 2013	<u>29,969</u>	<u>176,902</u>	<u>116</u>	<u>2,130</u>	<u>—</u>	<u>209,117</u>
Provided for the year	5,762	37,756	89	230	—	43,837
Eliminated on disposals	(5,677)	(3,783)	(41)	(828)	—	(10,329)
At 31 December 2014	<u>30,054</u>	<u>210,875</u>	<u>164</u>	<u>1,532</u>	<u>—</u>	<u>242,625</u>
Provided for the period	2,950	21,045	23	60	—	24,078
At 30 June 2015	<u>33,004</u>	<u>231,920</u>	<u>187</u>	<u>1,592</u>	<u>—</u>	<u>266,703</u>
CARRYING VALUES						
At 31 December 2012	<u>107,750</u>	<u>246,877</u>	<u>382</u>	<u>271</u>	<u>1,228</u>	<u>356,508</u>
At 31 December 2013	<u>101,544</u>	<u>225,416</u>	<u>212</u>	<u>238</u>	<u>1</u>	<u>327,411</u>
At 31 December 2014	<u>92,447</u>	<u>228,170</u>	<u>164</u>	<u>164</u>	<u>121,954</u>	<u>442,899</u>
At 30 June 2015	<u>89,961</u>	<u>299,104</u>	<u>323</u>	<u>805</u>	<u>100,387</u>	<u>490,580</u>

The Group had pledged certain of its property, plant and equipment to secure general banking facilities granted to the Group and Zhenshi Group at the end of each of the years ended 31 December 2012 and 2013, respectively. The pledge of property, plant and equipment for Zhenshi Group was released during 2014 and the pledge of property, plant and equipment was solely for the Group's general banking facilities as at 31 December 2014 and 30 June 2015. Details are set out in note 37.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, after taking into account their estimated residual values, using the straight-line method and at the following rates per annum.

Buildings	4.75%
Machinery and equipment	9.50-19.00%
Motor vehicles	9.50%
Furniture and office equipment	19.00%

On 17 November 2014, Hengshi Fiberglass entered into a compensation agreement (“Compensation Agreement”) with the local government authority in Tongxiang City, Zhejiang Province, the PRC, pursuant to which Hengshi Fiberglass was required to transfer the prepaid lease payment in respect of a land use right and property, plant and equipment in respect of the buildings on which to the local government authority for the purpose of city planning, redevelopment and enhancement of economic transformation.

In accordance with the Compensation Agreement, the local government authority agreed to compensate RMB12,565,000 and RMB11,963,000 in form of cash to Hengshi Fiberglass for the expropriation of prepaid lease payment and the buildings, plus the cash compensation of RMB110,000 for the relocation of Hengshi Fiberglass’ machinery. In addition, pursuant to the Compensation Agreement, the land use right after collected by the local government its authority would be subsequently auctioned off (“Auction”), and the local government authority agreed to share 50% net gain, representing the auction price less all compensation and necessary costs paid by the government authority, corresponding to the land use right from the Auction to Hengshi Fiberglass. However, if the buyer in this Auction eventually was Zhenshi Group or its subsidiaries, only 30% of the local government authority’s net gain arising would be shared to Hengshi Fiberglass. Up to the date of this report, the Auction has not yet been completed. Since the timing and occurrence of Auction is not uncertain, the net gain to be shared to Hengshi Fiberglass is considered as contingent asset and be recognised in profit or loss when it becomes virtually certain.

As at 31 December 2014, Hengshi Fiberglass has already returned the prepaid lease payment to the local government authority and has also fully obtained the compensation totalling RMB24,638,000 from the local government authority, resulting in the gain on disposal of property, plant and equipment of RMB5,499,000 and prepaid lease payments of RMB11,271,000, respectively.

On 6 December 2014, Hengshi Fiberglass acquired a prepaid lease payment in respect of a land use right for a cash consideration of RMB15,146,000 and property, plant and equipment in respect of three completed buildings and one building currently under construction from Yushi International for a total cash consideration of RMB5,618,000. The land use right and the buildings are located at No. 145 South Guangyun Road, Wutong Street, Tongxiang City, Zhejiang Province.

During the year ended 31 December 2013 and 2014 and the six months ended 30 June 2014 and 2015, Hengshi Fiberglass also purchased machinery and equipment totalling RMB596,000, RMB17,289,000, RMB3,909,000 (unaudited) and RMB10,693,000 from Zhenshi Group.

19. PREPAID LEASE PAYMENTS

The Group’s prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	As at 31 December			As at
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	2015
				RMB'000
Analysed for the reporting purpose as:				
Non-current portion	18,686	18,250	31,585	31,203
Current portion	436	436	776	776
	<u>19,122</u>	<u>18,686</u>	<u>32,361</u>	<u>31,979</u>

Amortisation is calculated using the straight-line method over the remaining useful lives ranging from 42 to 50 years for all the prepaid lease payments over the Track Record Period.

The Group had pledged certain of its prepaid lease payments in respect of the leasehold land interests to secure general banking facilities granted to the Group and a shareholder at the end of each of the years ended 31 December 2012 and 2013, the pledge of prepaid lease payments for Zhenshi Group had been released during year 2014. The prepaid lease payment pledged was solely for the Group's general banking facilities as at 31 December 2014 and 30 June 2015. Details are set out in note 37.

As detailed in note 18, during the year ended 31 December 2014, Hengshi Fiberglass transferred the prepaid lease payment to the local government authority for a compensation of RMB12,565,000. Furthermore, in accordance with the Compensation Agreement, Hengshi Fiberglass, subject to certain condition as mentioned in note 18, is also entitled to a sharing of 30% or 50% of the net profit corresponding to the prepaid lease payment when it was subsequently successfully sold from the Auction. Up to the date of this report, the Auction has not yet been completed.

20. DEFERRED TAX ASSETS (LIABILITIES)

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances in the consolidated statements of financial position for financial reporting purposes.

	As at 31 December			As at
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets	5,483	5,125	8,722	9,530
Deferred tax liabilities	—	—	—	(900)
	<u>5,483</u>	<u>5,125</u>	<u>8,722</u>	<u>8,630</u>

The following are the deferred tax assets (liabilities) recognised and movements thereon during the Track Record Period.

	Financial	Allowance	Allowance	Depreciation	Deferred	Withholding		Others	Total
	instruments at	for doubtful	for	of property,	revenue	tax on	Undistributed		
	FVTPL	debts	inventories	plant and	Tax losses	profit			
	RMB'000	RMB'000	RMB'000	equipment	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	—	1,500	—	1,191	—	—	—	705	3,396
Recognised in profit or									
loss	—	375	1,366	296	—	—	—	50	2,087
At 31 December 2012	—	1,875	1,366	1,487	—	—	—	755	5,483
Recognised in profit or									
loss	(810)	(255)	157	285	—	—	—	265	(358)
At 31 December 2013	(810)	1,620	1,523	1,772	—	—	—	1,020	5,125
Recognised in profit or									
loss	3,090	(105)	(190)	185	450	182	—	(15)	3,597
At 31 December 2014	2,280	1,515	1,333	1,957	450	182	—	1,005	8,722
Recognised in profit or									
loss	(1,461)	1,110	—	8	—	522	(900)	656	(65)
Exchange adjustments	—	—	—	—	—	(27)	—	—	(27)
At 30 June 2015	<u>819</u>	<u>2,625</u>	<u>1,333</u>	<u>1,965</u>	<u>450</u>	<u>677</u>	<u>(900)</u>	<u>1,661</u>	<u>8,630</u>

There were no other significant unrecognised temporary differences for the three years ended 31 December 2012, 2013, 2014 and six months period ended 30 June 2015, respectively.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation of RMB900,000 has been

provided in respect of the temporary differences associated with the undistributed profits earned by Hengshi Fiberglass as at 30 June 2015 at the applicable withholding tax rate of 10%. Deferred taxation has not been provided in respect of temporary differences attributable to the undistributed profits earned by Hengshi Fiberglass as at 30 June 2015 was RMB 20,932,000, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	As at 31 December			As at
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	2015
Deposits paid for acquisition of property, plant and equipment	<u>2,003</u>	<u>1,620</u>	<u>7,447</u>	<u>10,493</u>

The amount represents the partial payments made by the Group for the acquisition of machinery, of which would be transferred to property, plant and equipment when the machinery was installed and put into use. The related capital commitment is set out in note 36.

22. INVENTORIES

	As at 31 December			As at
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	2015
Raw materials	69,139	31,625	23,221	20,922
Work in progress	3,863	5,334	7,536	9,909
Finished goods	23,495	35,107	51,954	67,484
	<u>96,497</u>	<u>72,066</u>	<u>82,711</u>	<u>98,315</u>

The Group recorded write-downs of inventories in the amount of RMB9,104,000, RMB1,246,000, RMB944,000 and RMB75,000 (unaudited) and RMB214,000 for each of the three years ended 31 December 2012, 2013, 2014 and six months period ended 30 June 2014 and 2015, respectively and such amounts had been included in cost of sales for the Track Record Period.

During the year ended 31 December 2014, there has been a reversal of such write-downs in the amount of RMB317,000 and was included in cost of sales.

23. TRADE AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	140,206	148,393	188,467	324,174
Less: allowance for doubtful debts	(12,500)	(10,800)	(10,100)	(17,500)
	<u>127,706</u>	<u>137,593</u>	<u>178,367</u>	<u>306,674</u>
Prepayments	571	153	856	1,412
Other taxes recoverable	4,951	—	2,253	3,986
Deposits	185	—	406	1,821
Deferred expenses related to listing expenses	—	—	—	2,800
Other receivables	830	656	605	478
	<u>6,537</u>	<u>809</u>	<u>4,120</u>	<u>10,497</u>
Trade and other receivables	<u>134,243</u>	<u>138,402</u>	<u>182,487</u>	<u>317,171</u>

The Group allows a credit period ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance of doubtful debts, presented based on the invoice date, which approximate the revenue recognition date, at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	48,725	82,829	125,014	197,277
91 to 180 days	25,938	19,070	33,747	91,485
181 days to 1 year	28,275	17,913	2,864	9,831
1 to 2 years	24,768	9,297	5,992	1,591
Over 2 years	—	8,484	10,750	6,490
	<u>127,706</u>	<u>137,593</u>	<u>178,367</u>	<u>306,674</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for customer. Limits attributed to customers are reviewed annually. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date.

Included in the Group's trade receivable balance are trade receivables with a carrying amount of RMB41,390,000, RMB72,250,000, RMB107,202,000 and RMB188,847,000 as at 31 December 2012, 2013, 2014 and 30 June 2015, respectively which are neither past due nor impaired. The management of the Group considers that these trade receivables are of good quality given the continuous settlement from customers throughout the Track Record Period.

The following is an aged analysis of trade receivables based on the invoice date, which are past due at the end of each reporting period, but not impaired as the management considered there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	7,335	10,579	17,812	8,430
91 to 180 days	25,938	19,070	33,747	91,485
181 days to 1 year	28,275	17,913	2,864	9,831
1 to 2 years	24,768	9,297	5,992	1,591
Over 2 years	—	8,484	10,750	6,490
	<u>86,316</u>	<u>65,343</u>	<u>71,165</u>	<u>117,827</u>

Movements in the allowance for doubtful debts

	Year ended 31 December			Six months ended
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at the beginning of the year	10,000	12,500	10,800	10,100
Allowance for doubtful debts	2,500	—	508	8,139
Reversal of allowance for doubtful debts	—	(1,700)	—	—
Bad debts written off	—	—	(1,208)	(739)
Balance at the end of year	<u>12,500</u>	<u>10,800</u>	<u>10,100</u>	<u>17,500</u>

Included in the balance of allowance for doubtful debts are individually impaired trade receivables in full with an aggregate balance of RMB9,708,000, RMB8,911,000, RMB7,769,000 and RMB14,165,000 as at

31 December 2012, 2013, 2014 and 30 June 2015, respectively, with reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Group does not hold any collateral over these balances.

Included in trade receivables are the following amounts denominated in currencies other than the functional currencies of the group entities which they relate.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
USD	39,643	46,567	49,870	79,831
EUR	—	—	647	689
	<u>39,643</u>	<u>46,567</u>	<u>50,517</u>	<u>80,520</u>

The Group had pledged certain of its trade receivables to secure banking borrowings as at 31 December 2012 and 2013, respectively. Details are set out in note 37.

24. BILLS RECEIVABLES

The following is an aged analysis of bills receivables, which are not yet due at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	300	5,750	—	3,550
91 to 180 days	1,000	6,270	2,335	1,100
	<u>1,300</u>	<u>12,020</u>	<u>2,335</u>	<u>4,650</u>

Included in bills receivables are bills endorsed and transferred from 嘉興宇石供應鏈管理有限公司 (Jiaying Yushi Supply Chain Management Co., Ltd.) (“Yushi Supply Chain”), formerly known as 嘉興宇石燃料有限公司 (Jiaying Yushi Fuel Co., Ltd.), in which Mr. Zhang Yuqiang has controlling interest and is therefore a related party of the Group, amounted RMB200,000, RMB550,000, nil and nil as at 31 December 2012, 2013, 2014 and 30 June 2015, respectively. Details of the transfer of financial assets with related parties and a shareholder are set out in note 39.

The amounts of bills receivables which had been endorsed and transferred to its suppliers to settle its payables were RMB18,277,000, RMB51,854,000, RMB148,828,000, RMB166,392,000 as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively. Details of the arrangement was set out in note 39.

25. AMOUNTS DUE FROM (TO) OTHER RELATED PARTIES/SHAREHOLDERS

(A) Amounts due from other related parties:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	7,321	28,436	70,128	49,848
Non-trade related	167,786	262,204	—	509
	<u>175,107</u>	<u>290,640</u>	<u>70,128</u>	<u>50,357</u>

Trade related balances:

Particulars of the amounts due from other related parties of which are trade related are as follows.

Name	Relationship Note	As at 31 December			As at 30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Zhenshi Group (HK) Sinosia Technology Company Limited. ("Sinoshia Technology")	(i)	2,947	25,603	29,580	26,047
Zhenshi Spain S.A.	(i)	1,997	1,593	7,393	4,518
Huamei New Materials #華美新材料	(i)	164	—	—	25
Inspirock Hotel Co., LTD	(i)	—	—	—	2
Yushi International#	(i)	—	—	13,815	147
Tougxiang Zhan Bo Plastic Electronics Co., Ltd.# (桐鄉展博塑膠電子有限公司) ("Zhan Bo Plastic")	(i)	9	8	—	—
Dongguan Dongshi New Material Development Co., Ltd.# (東莞東石新材料開發有限公司) ("Dongguan Dongshi")	(ii)	1,400	N/A	N/A	N/A
China Jushi#	(iii)	—	—	—	681
Jushi France, SAS ("Jushi France")	(iii)	121	836	473	86
Temax Italia S.R.L. ("Temax Italia")	(iii)	—	—	154	325
Jushi Singapore Pte. Ltd. ("Jushi Singapore")	(iii)	—	34	270	142
Jushi India FRP Accessories ("Jushi India")	(iii)	639	342	—	556
Jushi Canada Fiberglass Co., Ltd. ("Jushi Canada")	(iii)	15	—	7	29
Jushi Japan Co., Ltd. ("Jushi Japan")	(iii)	—	—	321	480
Jushi USA Fiberglass Co., Ltd. ("Jushi USA")	(iii)	29	20	54	—
Zhenshi (US) International Trading Limited ("Zhenshi US" formerly known as Hengshi Fiberglass (USA). INC)	(v)	N/A	N/A	18,061	14,857
Zhenshi Group	(viii)	—	—	—	1,953
		<u>7,321</u>	<u>28,436</u>	<u>70,128</u>	<u>49,848</u>

The Group allows a credit period ranging from 30 to 120 days to its other related parties. The following is an aged analysis of amounts due from other related parties, presented based on the invoice dates, which approximate the revenue recognition date, at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	2,792	17,960	44,871	18,983
91 to 180 days	2,549	9,905	24,672	2,508
181 days to 1 year	1,971	562	585	28,357
Over 1 year	9	9	—	—
	<u>7,321</u>	<u>28,436</u>	<u>70,128</u>	<u>49,848</u>

Included in the Group's amounts due from other related parties are trade related receivable with a carrying amount of RMB2,914,000, RMB22,780,000, RMB41,160,000 and RMB13,649,000 for each of the year ended 31 December 2012, 2013, 2014 and the six months period ended 30 June 2015, respectively which are neither past due nor impaired. The management of the Group considers that these trade receivables are of good quality given the continuous settlement from the other related parties throughout the Track Record Period.

The following is an aged analysis of trade related receivables with other related parties based on the invoice date, which are past due at the end of each reporting period, but not impaired as the management of the Group considered there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	444	324	11,028	5,334
91 to 180 days	1,983	4,761	17,355	2,259
181 days to 1 year	1,971	562	585	28,357
Over 1 year	9	9	—	—
	<u>4,407</u>	<u>5,656</u>	<u>28,968</u>	<u>35,950</u>

Non-trade related balances:

Particulars of the amounts due from other related parties of which are non-trade related are as follows.

Name	Relationship Note	As at 31 December				As at	Maximum balance			Maximum
						30 June	outstanding during the year			balance
		2012	2013	2014	2015	Year ended 31 December			outstanding during the six months	
		RMB'000	RMB'000	RMB'000	RMB'000	2012	2013	2014	ended	
						RMB'000	RMB'000	RMB'000	30 June	
Zhenshi Group	(viii)	N/A	N/A	N/A	1	N/A	N/A	N/A	1	
Fame Success Investments Limited ("Fame Success")	(vii)	N/A	N/A	N/A	508	N/A	N/A	N/A	508	
Huamei New Materials (華美新材料)#	(i)	108,416	146,940	—	—	108,806	151,786	170,295	—	
Yushi Supply Chain#	(i)	—	—	—	—	—	1,250	—	—	
Inspirock Hotel Co., Ltd.# (振石大酒店有限公司) ("Inspirock Hotel")	(i)	32,150	70,904	—	—	32,216	105,482	70,904	—	
Tongxiang Kangshi Traditional Chinese and Western Medical Clinic# (桐鄉康石中西醫結合門診有限公司) ("Tongxiang Kangshi")	(i)	4,200	5,610	—	—	13,280	5,741	6,910	—	
Zhenshi Group Eastern Special Steel Co., Ltd.# (振石集團東方特鋼股份有限公司) ("Eastern Steel")	(i)	—	—	—	—	101,540	—	—	—	
Zhejiang Meishi New Materials Co., Ltd.# (浙江美石新材料有限公司) ("Zhejiang Meishi")	(i)	23,020	38,750	—	—	23,073	39,200	51,399	—	
Tongxiang Huarui Automatic Control Technology and Equipment Co., Ltd.# (桐鄉華銳自控技術裝備有限公司) ("Tongxiang Huarui")	(i)	—	—	—	—	—	3,017	700	—	
Zhejiang Huajun (浙江華駿)#	(i)	—	—	—	—	—	1,005	—	—	
Tongxiang Hongshi Trading Co., Ltd.# (桐鄉宏石貿易有限公司) ("Tongxiang Hongshi")	(i)	—	—	—	—	—	800	—	—	
		<u>167,786</u>	<u>262,204</u>	<u>—</u>	<u>509</u>	<u>—</u>	<u>800</u>	<u>—</u>	<u>—</u>	

The non-trade related balances represented the advances made by the Group to other related parties, of which the amounts due were unsecured, interest bearing and repayable on demand as at year ended 31 December 2012 and 2013 and 30 June 2015. As represented by the management of the Group, the amounts due would be settled prior to the Listing.

The ranges of effective interest rates (which are also equal to contracted interest rates) as at 31 December 2012, 2013, 2014 and 30 June 2015, respectively, are as follows.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
Fixed-rate advances	<u>6.56%-8.02%</u>	<u>6.36%-7.37%</u>	<u>—</u>	<u>—</u>

(B) Amounts due from shareholders:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	—	408	1,930	—
Non-trade related	—	178,950	200,000	1
	—	179,358	201,930	1

Trade related balances:

Particulars of the amount due from a shareholder of which are trade related are as follows.

Name#	Relationship Note	As at 31 December			As at 30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Zhenshi Group	(viii)	—	408	1,930	N/A

The Group allows a credit period of 30 days to Zhenshi Group. The following is an aged analysis of amount due from Zhenshi Group, presented based on the invoice dates, which approximate the revenue recognition date, at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	—	408	1,433	N/A
91 to 180 days	—	—	497	N/A
	—	408	1,930	N/A

Non-trade related balances:

Particulars of the amount due from a shareholder of which are non-trade related are as follows.

Name#	Relationship Note	As at 31 December				As at 30 June	Maximum balance outstanding during the year Year ended 31 December			Maximum balance outstanding during the period ended 30 June
		2012	2013	2014	2015	2015	2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Zhenshi Group ...	(viii)	—	178,950	200,000	N/A	180,900	279,850	255,950	201,112	
Huachen Investment Limited (華辰投資有限公司) (“Huachen Investment”)	(ix)	—	—	—	1	—	—	—	1	
		—	178,950	200,000	1					

The non-trade related balances represented the advances made by the Group to Zhenshi Group, of which was unsecured, interest bearing and repayable on demand.

The ranges of effective interest rates (which are also equal to contracted interest rates) as at 31 December 2012, 2013 and 2014, respectively, are as follows.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
Fixed-rate advances	<u>6.00%-7.57%</u>	<u>6.67%-7.12%</u>	<u>6.40%-7.28%</u>	<u>5.57%-6.52%</u>

(C) Amounts due to other related parties:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	2,241	8,733	6,338	42,573
Non-trade related	20	20	576	596
	<u>2,261</u>	<u>8,753</u>	<u>6,914</u>	<u>43,169</u>

Trade related balances:

Particulars of the amounts due to other related parties of which are trade related are as follows.

Name	Relationship	As at 31 December			As at 30 June
		Note	2012	2013	2014
		RMB'000	RMB'000	RMB'000	RMB'000
Yushi International#	(i)	1,609	5,572	6,088	9,965
Tongxiang Huarui	(i)	—	—	—	12
Inspirock Hotel#	(i)	—	125	20	3
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司) ("Tongxiang Chengshi")	(i)	—	28	19	5
Jiujiang Yushi International Logistics Co., Ltd.# (九江宇石國際物流有限公司) ("Jiujiang Yushi")	(i)	—	—	150	150
Huamei New Materials#	(i)	—	—	40	—
China Jushi#	(iii)	—	751	—	20,222
Jushi Singapore	(iii)	70	—	—	—
Jushi Canada	(iii)	—	37	—	—
P-D Jushi Interglas Co., Ltd. (巨石攀登電子基材有限公司) ("P-D Jushi")	(iii)	—	—	—	3,286
Jushi Group Jiujiang Co., Ltd. (巨石集團九江有限公司) ("Jushi Jiujiang")	(iii)	—	—	—	2,137
Jushi Group	(iii)	—	—	—	1,879
Jushi Group Chengdu Co., Ltd. (巨石集團成都有限公司) ("Jushi Chengdu")	(iii)	—	—	—	511
Jushi Japan	(iii)	—	—	—	—
Zhenshi Group	(viii)	—	—	—	3,173
Shanghai Tianshi International Logistics Co., Ltd.# (上海天石國際貨運代理有限公司) ("Shanghai Tianshi")	(iv)	562	2,220	21	1,230
		<u>2,241</u>	<u>8,733</u>	<u>6,338</u>	<u>42,573</u>

The credit period of amounts due to other related parties is from 30 to 90 days. The following is an aged analysis of amounts due to other related parties presented based on the goods receipt date at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	2,238	8,730	6,186	39,707
91 to 180 days	—	—	—	2,716
181 days to 1 year	1	—	150	150
1 to 2 year	—	1	—	—
Over 2 years	2	2	2	—
	<u>2,241</u>	<u>8,733</u>	<u>6,338</u>	<u>42,573</u>

Non-trade related balances:

Particulars of the amounts due to other related parties of which are non-trade related are as follows.

Name	Relationship Note	As at 31 December			As at 30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
PT. FAJAR BHAKTI LINTAS NUSANTARA ("PT FAJAR")	(i)	—	—	556	557
Mr. Tang Hsinhua	(vi)	20	20	20	20
Fame Success	(vii)	—	—	—	19
		<u>20</u>	<u>20</u>	<u>576</u>	<u>596</u>

The non-trade related balances represented the advances made to the Group by Mr. Tang Hsinhua and Fame Success during the Track Record Period, of which is unsecured, interest free and repayable on demand and prepaid rental expense and rental deposits totalling RMB557,000 paid on behalf of the Group by PT FAJAR during the Track Record Period. As represented by the management of the Group, the amounts due would be settled prior to the Listing.

(D) Amounts due to shareholders:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade related	—	67,435	4,664	—
Non-trade related	19	18	19	509
	<u>19</u>	<u>67,453</u>	<u>4,683</u>	<u>509</u>

Trade related balances:

Particulars of the amount due to a shareholder of which are trade related are as follows.

Name#	Relationship Note	As at 31 December			As at 30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Zhenshi Group	(viii)	—	67,435	4,664	N/A

The trade related balances of amounts due to Zhenshi Group were granted with credit period of 30 to 90 days. The following is an aged analysis of amounts due to Zhenshi Group presented based on the goods receipt date at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
0 to 90 days	<u>—</u>	<u>67,435</u>	<u>4,664</u>	<u>N/A</u>

Non-trade related balances:

Particulars of the amount due to shareholders of which are non-trade related are as follows:

Name	Relationship Note	As at 31 December			As at 30 June
		2012	2013	2014	2015
		RMB'000	RMB'000	RMB'000	RMB'000
Fame Success Investments Limited ("Fame Success")	(vii)	19	18	19	—
Trade Power Investments Limited (業威投資有限公司)	(ix)	—	—	—	1
Joyfar Limited (欣發有限公司)	(ix)	—	—	—	506
Huachen Investment	(ix)	—	—	—	1
Huakai Investment Limited (華凱投資有限公司) ...	(ix)	—	—	—	1
		<u>19</u>	<u>18</u>	<u>19</u>	<u>509</u>

The non-trade related balances represented the advances made to the Group by Fame Success, Trade Power Investments Limited, Joyfar Limited, Huachen Investment Limited and Huakai Investment Limited, of which was unsecured, interest free and repayable on demand. Fame Success was no longer a shareholder of Hengshi Fiberglass after the Group Reorganisation completed in April 2015. The amount due would be settled prior to the Listing.

English translated name is for identification purpose only.

Notes:

- (i) The management of the Group considers these entities related as Mr. Zhang Yuqiang, who is one of the Controlling Shareholders of the Group, has controlling interest in these entities.
- (ii) The management of the Group considers this entity related as Mr. Zhang Yuqiang has controlling interest in this entity as at 31 December 2012. The interest in this entity was disposed of to a third party in August 2013, it was no longer a related party of the Group since then.
- (iii) The management of the Group considers these entities related as Mr. Zhang Yuqiang has significant influence on these entities.
- (iv) The management of the Group considers this entity related as Mr. Zhang Jiankan, who is the son of Mr. Zhang Yuqiang, a shareholder and key management personal of the Group, has controlling interest in this entity.
- (v) Zhenshi Group (HK) Heshi Composite Materials Trading Limited ("Heshi Composite"), in which Mr. Zhang Yuqiang has controlling interest, acquired 30% equity interest in this entity from Mr. Tang Hsinhua on 12 August 2014. The management of the Group considers this entity related since then.
- (vi) Mr. Tang Hsinhua is a shareholder and key management personal of the Group.
- (vii) The management of the Group considers this entity related as Mr. Tang Hsinhua has controlling interest in this entity.
- (viii) Upon the completion of Group Reorganisation in April 2015, Zhenshi Group was no longer a shareholder of Hengshi Fiberglass. As Mr. Zhang Yuqiang, being one of the Controlling Shareholders, has controlling interest in Zhenshi Group, it is still a related company of the Group.
- (ix) These entities became the then shareholders of the Company upon the completion of Group Reorganisation in April 2015 and any balances with them were transferred to amounts due from (to) shareholders since then.

Included in amounts due from (to) related parties and shareholders are the following amounts denominated in currencies other than the functional currencies of the Group.

	Amounts due from related parties As at 31 December			Amounts due from related parties As at 30 June	Amounts due to related parties As at 31 December			Amounts due to related parties As at 30 June
	2012	2013	2014	2015	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
USD	5,748	28,427	56,314	47,550	1,619	4,380	2,019	3,720
EUR	—	—	—	—	—	—	42	446
	<u>5,748</u>	<u>28,427</u>	<u>56,314</u>	<u>47,550</u>	<u>1,619</u>	<u>4,380</u>	<u>2,061</u>	<u>4,166</u>

26. FINANCIAL ASSETS (LIABILITIES) AT FVTPL

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Foreign currency forward contracts classified as				
- Financial assets at FVTPL	—	5,400	—	—
- Financial liabilities at FVTPL	—	—	15,200	5,460
	<u>—</u>	<u>5,400</u>	<u>15,200</u>	<u>5,460</u>

Major terms of the foreign currency forward contracts, which were all settled on a gross basis, outstanding at the end of each reporting period are as follows.

As at 31 December 2013

Notional amount	Maturity	Reference exchange rate
USD 1,500,000	From 2 to 29 January 2014	Sell USD / Buy RMB at 6.2082
USD 1,500,000	From 10 to 28 February 2014	Sell USD / Buy RMB at 6.2180
USD 1,500,000	From 3 to 31 March 2014	Sell USD / Buy RMB at 6.2247
USD 2,000,000	From 1 to 30 April 2014	Sell USD / Buy RMB at 6.2345
USD 2,000,000	From 8 to 30 May 2014	Sell USD / Buy RMB at 6.2438
USD 2,000,000	From 3 to 30 June 2014	Sell USD / Buy RMB at 6.2515
USD 2,000,000	From 1 to 31 July 2014	Sell USD / Buy RMB at 6.2560
USD 2,000,000	From 1 to 29 August 2014	Sell USD / Buy RMB at 6.2582
USD 1,350,000	From 1 to 30 September 2014	Sell USD / Buy RMB at 6.2648
USD 2,000,000	From 6 to 31 October 2014	Sell USD / Buy RMB at 6.2695
USD 2,000,000	From 3 to 28 November 2014	Sell USD / Buy RMB at 6.2780
USD 2,000,000	From 1 to 31 December 2014	Sell USD / Buy RMB at 6.2838
USD 1,586,400	From 6 to 29 January 2014	Sell USD / Buy RMB at 6.1554
USD 1,573,900	From 10 to 28 February 2014	Sell USD / Buy RMB at 6.1644
USD 1,573,900	From 3 to 31 March 2014	Sell USD / Buy RMB at 6.1696
USD 2,156,100	From 1 to 29 April 2014	Sell USD / Buy RMB at 6.1744
USD 2,156,100	From 5 to 30 May 2014	Sell USD / Buy RMB at 6.1824
USD 2,156,100	From 3 to 30 June 2014	Sell USD / Buy RMB at 6.1891
USD 2,156,100	From 1 to 29 July 2014	Sell USD / Buy RMB at 6.1941
USD 2,156,100	From 1 to 27 August 2014	Sell USD / Buy RMB at 6.2015
USD 1,386,100	From 1 to 26 September 2014	Sell USD / Buy RMB at 6.2080
USD 2,156,000	From 6 to 31 October 2014	Sell USD / Buy RMB at 6.2131
USD 2,156,000	From 3 to 28 November 2014	Sell USD / Buy RMB at 6.2174
USD 2,156,000	From 3 to 31 December 2014	Sell USD / Buy RMB at 6.2224

As at 31 December 2014

Notional amount	Maturity	Reference exchange rate
USD 4,818,800	From 2 to 30 January 2015	Sell USD / Buy RMB at 6.0590
USD 3,273,800	From 2 to 27 February 2015	Sell USD / Buy RMB at 6.0640
USD 4,559,300	From 2 to 31 March 2015	Sell USD / Buy RMB at 6.0618
USD 5,238,000	From 1 to 30 April 2015	Sell USD / Buy RMB at 6.0633
USD 5,238,000	From 4 to 29 May 2015	Sell USD / Buy RMB at 6.0649
USD 5,436,800	From 1 to 30 June 2015	Sell USD / Buy RMB at 6.0663
USD 5,504,300	From 1 to 31 July 2015	Sell USD / Buy RMB at 6.0678
USD 5,436,800	From 3 to 31 August 2015	Sell USD / Buy RMB at 6.0695
USD 5,436,800	From 1 to 30 September 2015	Sell USD / Buy RMB at 6.0711
USD 5,436,800	From 8 to 30 October 2015	Sell USD / Buy RMB at 6.0731
USD 5,436,800	From 2 to 30 November 2015	Sell USD / Buy RMB at 6.0745
USD 5,245,500	From 1 to 31 December 2015	Sell USD / Buy RMB at 6.0760

As at 30 June 2015

Notional amount	Maturity	Reference exchange rate
USD 5,504,300	From 1 to 31 July 2015	Sell USD / Buy RMB at 6.0678
USD 5,436,800	From 3 to 31 August 2015	Sell USD / Buy RMB at 6.0695
USD 5,436,800	From 1 to 30 September 2015	Sell USD / Buy RMB at 6.0711
USD 5,436,800	From 8 to 30 October 2015	Sell USD / Buy RMB at 6.0731
USD 5,436,800	From 2 to 30 November 2015	Sell USD / Buy RMB at 6.0745
USD 5,245,500	From 1 to 31 December 2015	Sell USD / Buy RMB at 6.0760

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH**Pledged bank deposits**

As at 31 December 2012, 2013, 2014 and 30 June 2015, pledged bank deposits with original maturity of more than three months carried interest at fixed rates ranging from 0.50% to 3.36%, NA, nil to 2.75% and nil to 2.35% per annum, respectively. The bank deposits have been pledged to secure the Group's issuance of short-term bills payables and foreign currency forward contracts and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payables and foreign currency forward contracts.

Bank balances

As at 31 December 2012, 2013 and 2014 and 30 June 2015, bank balances carried interest at prevailing market rates ranging from 0.01% to 1.44%, 0.01% to 1.44%, nil to 1.44% and nil to 1.44% per annum, respectively.

At the end of each reporting period, included in pledged bank deposits and bank balances and cash above are the following amounts denominated in currencies other than the functional currencies of the group entities.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
USD	6,558	13,853	24,325	14,618
EUR	60	61	55	71,303
JPY	—	—	3	3
	<u>6,618</u>	<u>13,914</u>	<u>24,383</u>	<u>85,924</u>

28. TRADE AND OTHER PAYABLES

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	4,219	118	389	10,989
Deposits received from customers	929	1,909	2,673	4,158
Interest payables	1,521	1,118	931	800
Other taxes payable	1,574	825	194	1,258
Payables for purchase of property, plant and equipment	990	977	32,712	12,465
Payroll payable	—	—	—	809
Retention payable	146	186	471	1,691
Accrued listing expense	—	—	—	6,044
Other payables	1,802	997	3,549	3,989
Trade and other payables	<u>11,181</u>	<u>6,130</u>	<u>40,919</u>	<u>42,203</u>

The average credit period of trade payables is from 30 to 90 days. The following is an aged analysis of trade payables presented based on the goods receipt date at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	3,452	10	293	9,681
91 to 180 days	682	6	13	1,292
181 days to 1 year	—	17	9	3
1 to 2 years	10	—	62	—
Over 2 years	75	85	12	13
	<u>4,219</u>	<u>118</u>	<u>389</u>	<u>10,989</u>

Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the group entities.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
USD	1,458	155	1,124	7,342
EUR	—	—	14,852	—
	<u>1,458</u>	<u>155</u>	<u>15,976</u>	<u>7,342</u>

29. BILLS PAYABLES

The aged analysis of bills payables at the end of each reporting period was as follow.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	53,000	—	—	47,933
31 to 60 days	28,700	—	4,445	35,476
61 to 90 days	18,500	—	4,800	18,578
91 to 180 days	67,702	—	1,220	1,958
	<u>167,902</u>	<u>—</u>	<u>10,465</u>	<u>103,945</u>

As at 31 December 2012, bills payables amounted to RMB165,852,000 are bills issued to Jushi Group for the settlement of raw materials from which the Group purchased.

As at 30 June 2015, bills payables amounted to RMB21,337,000, RMB56,682,000 and RMB12,903,000 are issued to Jushi Group, China Jushi and Yushi International for the settlement of raw material and services from which the Group purchased.

30. PROVISIONS

	Financial Guarantee Contracts
	RMB'000 (note)
At 1 January 2012	<u>34,900</u>
Initial recognition in:	
- other reserve	<u>51,800</u>
Release of obligation recognised in:	
- profit or loss:	<u>(34,900)</u>
At 31 December 2012	<u>51,800</u>
Initial recognition in:	
- other reserve	<u>34,100</u>
Release of obligation recognised in:	
- profit or loss	<u>(47,600)</u>
At 31 December 2013	<u>38,300</u>
Initial recognition in:	
- other reserve	<u>65,200</u>
Release of obligation recognised in:	
- profit or loss	<u>(38,200)</u>
At 31 December 2014	<u>65,300</u>
Release of obligation recognised in:	
- profit or loss	<u>(65,300)</u>
At 30 June 2015	<u>—</u>

Note: The amounts represented the adjustment in relation to the financial guarantee contracts in favour of banks provided by the Group to Zhenshi Group and its other related parties, 桐鄉市中鑫實業有限公司 (Tongxiang Zhongxin Industrial Co., Ltd) (“Tongxiang Zhongxin”) an entity controlled by the close family member of Mr. Zhang Jiankan, one of the controlling shareholders of the Group, and Huamei New Materials, an entity controlled by Mr. Zhang Yuqiang, one of the controlling shareholders of the Group. The impact and corresponding adjustment in respect of the financial guarantee provided to the shareholder was initially recognised in retained profits as deemed distribution to shareholders. The financial guarantee contracts were released in full during the six months ended 30 June in 2015.

31. BANK BORROWINGS

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	<u>441,500</u>	<u>511,750</u>	<u>420,299</u>	<u>436,114</u>

The bank borrowings were guaranteed and secured by:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured and guaranteed by (note b):				
Zhenshi Group	220,000	210,000	174,000	—
Zhenshi Group and Mr. Zhang Yuqiang	110,000	120,000	—	—
Eastern Steel	45,000	25,000	—	—
Eastern Steel and Mr. Zhang Yuqiang	—	100,000	—	—
Eastern Steel, Mr. Zhang Yuqiang and Zhenshi Group Jucheng Real Estate Development Co., Ltd. (note c)	20,000	—	—	—
Zhenshi Group, Mr. Zhang and Ms. Zhou Jingqi (note d)	—	—	100,000	—
	<u>395,000</u>	<u>455,000</u>	<u>274,000</u>	<u>—</u>
Guaranteed by Zhenshi Group and secured by property plant and equipment, prepaid lease payment and trade receivables owned by Hengshi Fiberglass (notes a and b)	<u>30,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Guaranteed by Zhenshi Group and secured by property plant and equipment, prepaid lease payment owned by Inspirock Hotel (note b)	<u>—</u>	<u>—</u>	<u>99,899</u>	<u>—</u>
Unguaranteed and secured by property, plant and equipment, prepaid lease payments and trade receivables owned by Hengshi Fiberglass (note a)	<u>16,500</u>	<u>56,750</u>	<u>46,400</u>	<u>256,114</u>
Unguaranteed and unsecured	<u>—</u>	<u>—</u>	<u>—</u>	<u>180,000</u>
	<u>441,500</u>	<u>511,750</u>	<u>420,299</u>	<u>436,114</u>

The bank borrowings comprise:

Variable-rate borrowings	40,000	140,000	127,209	256,114
Fixed-rate borrowings	<u>401,500</u>	<u>371,750</u>	<u>293,090</u>	<u>180,000</u>
	<u>441,500</u>	<u>511,750</u>	<u>420,299</u>	<u>436,114</u>

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Carrying amount repayable*				
Within one year (shown under current liabilities)	441,500	511,750	320,400	430,000
More than two years but not more than five years (shown under non-current liabilities)	—	—	99,899	6,114
	<u>441,500</u>	<u>511,750</u>	<u>420,299</u>	<u>436,114</u>

Note:

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings as at 31 December 2012, 2013 and 2014 and 30 June 2015, respectively, are as follows.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
Variable-rate borrowings	6.90%-7.54%	6.00%-6.60%	3.13%-6.72%	2.59%-5.35%
Fixed-rate borrowings	5.60%-6.95%	5.88%-6.60%	5.04%-6.78%	5.35%-5.36%

Included in bank borrowings are the following amounts denominated in a currency other than the functional currencies of the Group:

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
USD	—	—	27,209	6,114

Notes:

- The bank borrowings were secured by certain property, plant and equipment, prepaid lease payments and trade receivables of the Group. Details are set out in note 37.
- The guarantees provided to the Group had been released in 2015.
- The management of the Group considers 振石集團巨成置業有限公司 (Zhenshi Group Jucheng Real Estate Development Co., Ltd.) related as Mr. Zhang Yuqiang has controlling interest in this entity.
- Ms. Zhou Jingqi is the spouse of Mr. Zhang Yuqiang.

32. DEFERRED REVENUE

	Year ended 31 December			Six months ended
	2012	2013	2014	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Arising from government grant	—	—	3,000	3,000
Current	—	—	—	—
Non-current	—	—	3,000	3,000
	—	—	3,000	3,000

During the year ended 31 December 2014, the Group received a government grant amounted to RMB3,000,000, which is a subsidy related to the purchase of manufacturing equipment. The government grant, which is related to depreciable assets, will be charged to profit or loss over the useful lives of these assets when they become ready to use.

33. CAPITAL

Capital in the consolidated statements of financial position as at 31 December 2012, 2013 and 2014 represents the paid-in capital of Hengshi Fiberglass, while that as at 30 June 2015 represents the issued and fully paid capital of the Company.

During the year ended 31 December 2012, the owners of Hengshi Fiberglass had made additional capital contribution of RMB55,853,000 and the total paid-in capital of Hengshi Fiberglass was RMB361,014,000 as at 31 December 2012.

During the year ended 31 December 2014, the owners of Hengshi Fiberglass had made additional capital contribution of RMB94,420,000, and the total paid-in capital of Hengshi Fiberglass was RMB455,434,000 as at 31 December 2014.

During the six months ended 30 June 2015, the owners of Hengshi Fiberglass had made additional capital contribution of RMB47,144,000, and the total paid-in capital of Hengshi Fiberglass was RMB502,577,000 as at 30 June 2015.

As disclosed in Note 2, the Hengshi Fiberglass Acquisition was completed in April 2015, the capital after the Group Reorganisation represents the ordinary shares issued by the Company only.

Details of movements of share capital of the Company are as follows:

	<u>Number of Shares</u>	<u>Amount</u>
		USD
<u>Authorised (at par value of US\$0.001 each)</u>		
Authorised on date of incorporation of 23 February 2015	50,000	50,000
Sub-division of authorised shares on 7 May 2015 (note)	49,950,000	—
Increase of authorised shares on 7 May 2015 (note)	<u>1,950,000,000</u>	<u>1,950,000</u>
As at 30 June 2015	<u><u>2,000,000,000</u></u>	<u><u>2,000,000</u></u>

	<u>Number of Shares</u>	<u>Amount</u>	<u>Amount</u>
		USD	RMB
<u>Issued and fully paid (at par value of US\$0.001 each)</u>			
On date of incorporation of 23 February 2015	1	1	6
Issue of new ordinary shares on 23 February 2015	99	99	607
Sub-division of shares on 7 May 2015 (note)	<u>99,900</u>	<u>100</u>	<u>613</u>
As at 30 June 2015	<u><u>100,000</u></u>	<u><u>100</u></u>	<u><u>613</u></u>

Note: On 7 May 2015, the Company sub-divided the authorised shares from 50,000 of a par value of USD0.001 each to 50,000,000. On the same date, the authorised shares was increased from 50,000,000 to 2,000,000,000 of a par value of USD0.001 each.

Subsequently on 17 August 2015, by utilisation of the Company's other reserve, the shareholders of the Company subscribed 749,900,000 new ordinary shares of the Company, and there are total 750,000,000 shares of the Company in issue as at the date of issuance of this Prospectus.

34. CONTINGENT LIABILITIES AND OTHER DISPUTES

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees provided to banks in respect of banking facilities granted to				
- Tongxiang Zhongxin	22,000	22,000	22,000	—
- Huamei New Materials	54,000	—	—	—
- Zhenshi Group	1,057,428	845,242	1,118,000	—
Total guaranteed amounts	<u>1,133,428</u>	<u>867,242</u>	<u>1,140,000</u>	—
Less: amounts provided as financial guarantee obligations	51,800	38,300	65,300	—
	<u>1,081,628</u>	<u>828,942</u>	<u>1,074,700</u>	—

The guarantees provided by the Group to the related parties and a shareholder had been released in full during the six months ended 30 June in 2015.

On 15 May 2015, China Jushi, supplier of the Group, and Hengshi Fiberglass jointly initiated legal proceedings in Spain against an overseas fiberglass manufacturer (the “**defendant**”) to seek an order that (i) the defendant’s patent on one particular type of fiberglass is invalid in Spain, and (ii) even if such patent is valid the particular type of fiberglass manufactured by China Jushi does not infringe such patent of the defendant. More details were set forth in section headed “Risk Factors” in the Prospectus.

35. OPERATING LEASES

The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	—	820	790
In the second to fifth years inclusive	—	—	2,397	1,936
	—	—	<u>3,217</u>	<u>2,726</u>

Operating lease payments represent rental payable by the Group for certain factory, office premises and buildings. Leases are negotiated and rentals are fixed for terms of one to five years.

36. CAPITAL COMMITMENTS

At the end of each reporting period, the Group had the following capital commitments.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment and construction in progress				
- Authorised but not contracted for	—	—	5,819	22,083
- Contracted for but not provided for	<u>9,262</u>	<u>27,029</u>	<u>47,758</u>	<u>70,087</u>

37. PLEDGE OF ASSETS

In addition to the pledge of assets as disclosed in note 24, the following assets have been pledged to various banks for securing the borrowings of the Group and a shareholder at the end of each reporting period.

	As at 31 December			As at 30 June
	2012	2013	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000
Property, plant and equipment (<i>note</i>)	104,138	98,191	86,481	83,770
Prepaid lease payments (<i>note</i>)	19,122	18,686	16,958	16,758
Trade receivables	12,664	25,422	—	—
	<u>135,924</u>	<u>142,299</u>	<u>103,439</u>	<u>100,528</u>

Note: The property, plant and equipment amounted of RMB6,811,000 and RMB1,362,000 and a prepaid lease payment of RMB1,362,000 and RMB1,327,000 have been pledged for a borrowing amounting to RMB20,000,000 of Zhenshi Group as at 31 December 2012 and 2013, respectively. As represented by the management of the Group, the pledged assets for Zhenshi Group have been released during the year ended 31 December 2014.

38. RETIREMENT BENEFITS PLANS

Hengshi Fiberglass is a member of the state-managed retirement benefits scheme operated by the PRC government authority. Hengshi Fiberglass is required to contribute specified rate of the employees' salaries to the retirement benefits scheme to fund the benefits. The only obligation of Hengshi Fiberglass with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Hengshi Egypt is a member of the state-managed retirement benefits scheme operated by the Egypt government authority. Hengshi Egypt is required to contribute specified rate of the employees' salaries to the retirement benefits scheme to fund the benefits. The only obligation of Hengshi Egypt with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme during the years ended 31 December 2012, 2013, 2014 and six months period ended 30 June 2014 (unaudited) and 2015 are RMB1,681,000, RMB1,824,000, RMB1,946,000 and RMB1,054,000 (unaudited) and RMB1,949,000, respectively.

39. TRANSFER OF FINANCIAL ASSETS

During the Track Record Period, the Group has acquired certain bills receivables from other related parties and Zhenshi Group and was then transferred to its suppliers to settle its payables through endorsing the bills to its suppliers. The Group has derecognised these bills receivables and the payables to suppliers in their entirety.

In addition, in order to enhance the utilisation of the bills receivables the Group received from its customers, the Group has also endorsed certain bills receivables to other related parties during the Track Record Period. The Group has also derecognised these bills receivables.

The acquisition of bills receivable from and endorsement of bills receivables to other related parties is considered as a non-compliant issue and more details are set forth in section headed "Business" in the Prospectus.

In the opinion of the management of the Group, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant.

As at 31 December 2012, 2013 and 2014, the Group's maximum exposure to loss, which is the same as the amount payable to the suppliers and the amount of bills receivables endorsed to the related parties in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity, amounted RMB100,000, RMB14,212,000 and RMB8,082,000, respectively.

All the bills receivables endorsed to the suppliers have a maturity date of less than six months from the end of each reporting period. Details of the amounts of the acquisition and transfer of bills receivables from (to) related parties and a shareholder were set out in note 41.

The Group ceases the above-mentioned bills arrangement with related parties since 30 October 2014.

40. NON-CASH TRANSACTIONS

Pursuant to a resolution approved by the board of directors on 29 August 2012, Hengshi Fiberglass declared dividend amounting to RMB14,792,000, of which RMB13,312,000 was reinvested as capital injection in capital on 8 November 2012.

Pursuant to a resolution approved by the board of directors on 29 November 2013, Hengshi Fiberglass declared dividend amounting to RMB32,979,000, of which RMB29,681,000 was reinvested as capital injection in capital on 26 January 2014.

Pursuant to a resolution approved by the board of directors on 28 May 2014, Hengshi Fiberglass declared dividend amounting to RMB29,845,000, of which RMB28,651,000 was reinvested as capital injection in capital on 17 July 2014.

Pursuant to a resolution approved by the board of directors on 25 February, Hengshi Fiberglass declared dividends amounting to RMB57,381,000, of which RMB47,143,000 was reinvested as capital injection in capital on 24 March 2015.

41. RELATED PARTY TRANSACTIONS

Related party transactions

Save as disclosed elsewhere in this report, the Group had also entered into the following significant related party transactions during the Track Record Period.

Name of related parties	Relationship	Nature of transactions	Year ended 31 December			Six months ended 30 June	
			2012	2013	2014	2014	2015
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Sinosia Technology	note 25(i)	Sales of finished goods	5,446	46,291	64,323	32,993	3,007
Zhenshi Spain S.A.	note 25(i)	Sales of finished goods	11,911	2,078	11,311	4,559	108
Huamei New Materials	note 25(i)	Sales of finished goods	137	1	—	—	—
		Interest income earned	2,467	8,300	7,202	5,084	—
		Bills receivables acquired from	3,200	350	—	—	—
		Bills receivables endorsed by the Group to	3,226	100	612	344	—
		Purchase of raw materials	—	—	53	—	—
		Purchase of property, plant and equipment	—	—	5	—	1,142
Yushi International	note 25(i)	Services charges incurred	13,381	17,759	28,843	11,540	24,342
		Bills receivables acquired from	5,715	350	1,220	—	—

Name of related parties	Relationship	Nature of transactions	Year ended 31 December			Six months ended 30 June	
			2012	2013	2014	2014	2015
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Bills receivables endorsed by the Group to	50	100	1,368	410	—
		Rental income earned	—	—	143	—	147
		Purchase of property, plant and equipment	—	—	5,618	5,618	—
		Purchase of prepaid lease payments	—	—	15,146	15,146	—
		Prepayment of value added tax in respect of overseas purchase of machineries	—	—	13,815	—	2,523
Jiujiang Yushi	note 25(i)	Services charges incurred	46	100	135	135	—
Jucheng Real Estate	note 25(i)	Purchase of property, plant and equipment	—	—	—	—	655
Sichuan Yushi International Logistics Co., Ltd. (四川宇石國際物流有限公司)	note 25(i)	Services charges incurred	118	—	—	—	—
Yushi Supply Chain	note 25(i)	Interest income earned	—	1	—	—	—
		Bills receivables acquired from	2,445	800	—	—	—
		Bills receivables endorsed by the Group to	—	400	47	47	—
Jiaxing Yushi International Logistics Co., Ltd. (嘉興市宇石國際貨運代理有限公司)	note 25(i)	Services charges incurred	—	—	163	163	—
		Bills receivables endorsed by the Group to	50	2,813	500	500	—
Tongxiang Zhouquan Yushi International Logistics Co., Ltd. (桐鄉市洲泉宇石國際物流有限公司)	note 25(i)	Bills receivables endorsed by the Group to	30	510	—	—	—
		Bills receivables acquired from	—	1,700	750	—	—
Inspirock Hotel	note 25(i)	Services charges incurred	474	599	587	312	1,388
		Interest income earned	714	3,251	2,874	1,677	—
		Bills receivables endorsed by the Group to	500	644	20	20	—
		Scrap sales earned	—	—	—	—	2
Tongxiang Chengshi	note 25(i)	Services charges incurred	82	164	203	53	217
Tongxiang Kangshi	note 25(i)	Services charges incurred	179	3	—	—	102
		Interest income earned	698	323	386	194	—

Name of related parties	Relationship	Nature of transactions	Year ended 31 December			Six months ended 30 June	
			2012	2013	2014	2014	2015
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
							(unaudited)
Eastern Steel	note 25(i)	Interest income earned	1,775	—	—	—	—
Zhejiang Meishi	note 25(i)	Interest income earned	93	1,843	2,806	1,342	—
Tongxiang Huarui	note 25(i)	Interest income earned	—	59	—	—	—
		Bills receivables acquired from	2,651	155	2,344	2,344	—
		Bills receivables endorsed by the Group to	170	—	190	190	—
		Purchase of property, plant and equipment	—	—	—	—	10
Zhejiang Huajun	note 25(i)	Interest income earned	—	24	—	—	—
Tongxiang Hongshi	note 25(i)	Interest income earned	—	7	—	—	—
Dongguan Hua Boxing Communication Technology Co., Ltd. (東莞市華波星通信科技有限公司)	note 25(i)	Bills receivables endorsed by the Group to	—	—	7,002	7,002	—
Dongguan Yuandong Tenghui Electronic Technology Co., Ltd. (東莞遠東騰輝電子科技有限公司)	note 25(i)	Bills receivables endorsed by the Group to	—	—	390	140	—
PT. FAJAR	note 25(i)	Prepaid rental expense and rental deposit paid on behalf of the Group	—	—	556	—	—
Dongguan Dongshi	note 25(ii)	Sales of finished goods	1,562	1,335	N/A	N/A	N/A
Jushi Group	note 25(iii)	Purchase of raw materials	254,591	11,138	4,987	1,512	52,175
		Rental income earned	2,736	666	533	395	—
		Scrap sales earned	747	777	201	172	263
		Rental expense	—	—	—	—	9
Jushi Chengdu	note 25(iii)	Purchase of raw materials	1,226	—	—	—	506
Jushi Jiujiang	note 25(iii)	Purchase of raw materials	955	202	—	—	1,827
P-D Jushi	note 25(iii)	Purchase of raw materials	460	—	—	—	2,125
		Rental expense incurred	—	—	18	—	—
Jushi France	note 25(iii)	Sales of finished goods	666	2,932	2,251	990	1,322
Temax Italia	note 25(iii)	Sales of finished goods	106	—	382	0	171
Jushi Singapore	note 25(iii)	Sales of finished goods	571	689	981	292	335
Jushi India	note 25(iii)	Sales of finished goods	1,072	1,744	1,130	610	926
Jushi Canada	note 25(iii)	Sales of finished goods	177	391	748	359	291
Jushi Japan	note 25(iii)	Sales of finished goods	—	—	648	156	467

Name of related parties	Relationship	Nature of transactions	Year ended 31 December			Six months ended 30 June	
			2012	2013	2014	2014	2015
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
							(unaudited)
Jushi USA	note 25(iii)	Purchase of raw materials	64	79	36	—	51
China Jushi	note 25(iii)	Rental income earned	—	2,045	709	709	—
		Scrap sales earned	—	—	—	—	582
		Purchase of raw materials	—	—	—	—	122,952
Jushi Spain	note 25(iii)	Sales of finished goods	—	—	—	—	433
Jushi Egypt for Fiberglass industry S.A.E	note 25(iii)	Purchase of raw materials	—	—	—	—	111
Shanghai Tianshi	note 25(iv)	Services charges incurred	2,375	6,404	8,697	3,747	5,494
Zhenshi US	note 25(v)	Sales of finished goods	N/A	N/A	21,108	N/A	29,100
Zhenshi Group	note 25(viii)	Sales of finished goods	—	1,256	5,483	3,267	3,149
		Purchase of raw materials	—	196,900	390,375	147,167	91,763
		Purchase of property, plant and equipment	—	596	17,289	3,909	10,693
		Interest income earned	5,663	9,464	3,285	1,514	2,901
		Bills receivables endorsed by the Group	15,440	10,339	7,970	6,600	—
		Scrap sales earned	—	—	—	—	10
		Rental Expense incurred	—	—	—	—	6
			<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6</u>

Certain trademarks owned by Zhenshi Group were used by the Group free of charge during the Track Record Period. These transactions constitute connected transactions pursuant to the Listing Rules and will continue after the Listing.

Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record Period is as follows.

	Year ended 31 December			Six months ended 30 June	
	2012	2013	2014	2014	2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(unaudited)
Salaries and other benefits	738	686	668	327	1,106
Performance related bonus (<i>note</i>)	171	154	160	79	84
Retirement benefits schemes contribution	15	16	23	11	26
	<u>924</u>	<u>856</u>	<u>851</u>	<u>417</u>	<u>1,216</u>

Note: Performance related bonus is determined with reference to the Group's operating results, individual performance and comparable market statistics.

B. FINANCIAL INFORMATION OF THE COMPANY

The Company had the following assets and liabilities as at 30 June 2015.

	RMB'000
Non-current asset	
Interest in a subsidiary	606,816
Current assets	
Amounts due from shareholders	1
Prepaid expenses	2,800
	<u>2,801</u>
Current liabilities	
Amounts due to shareholders	509
Amount due to a subsidiary	13,621
	<u>14,130</u>
Net current liability	11,329
Total assets less current liability	<u>595,487</u>
Capital and reserve	
Share capital	1
Reserve	595,486
	<u>595,487</u>

The movement of reserve movement of the Company was set forth below:

	Capital	Other	Accumulated	Total
	RMB'000	reserve	loss	RMB'000
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	—	—	—	—
Loss for the period	—	—	(11,623)	(11,623)
Capital injection	<u>1</u>	—	—	<u>1</u>
Capital contribution	—	<u>607,109</u>	—	<u>607,109</u>
At 30 June 2015	<u>1</u>	<u>607,109</u>	<u>(11,623)</u>	<u>595,487</u>

C. EVENTS AFTER THE REPORTING PERIOD

The Group has the following events taken place subsequent to the Track Record Period.

- (i) On 17 August 2015, by capitalisation of the Company's other reserve, 329,559,000 shares of the Company was issued to Huachen Investment for a consideration of US\$43,584,000, 120,381,000 shares of the Company was issued to Huakai Investment for a consideration of US\$15,920,000, 224,970,000 shares of the Company was issued to Trade Power Investments Limited for a consideration of US\$29,752,000, 74,990,000 shares of the Company was issued to Joyfar Limited for a consideration of US\$9,917,000.
- (ii) Hengshi USA Company Limited was incorporated in the USA on 6 August 2015 with limited liability by the Company.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group have been prepared in respect of any period subsequent to 30 June 2015.

E. DIRECTOR'S REMUNERATION

Under the arrangements presently in force, the estimated aggregate remunerations, excluding any discretionary bonus, if any, of the Company's directors for the year ending 31 December 2015 is estimated to be approximately RMB2,200,000.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The information set forth in this Appendix does not form part of the accountant's report on the historical financial information of the Group for the three years ended 31 December 2014 and the six months ended 30 June 2015 (the "Accountant's Report") from Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this Prospectus, and is included herein for information only. The pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the "Accountant's Report" set out in Appendix I to this Prospectus.

A. PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The following pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purpose only, and is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015 as if the Global Offering had taken place on 30 June 2015.

This pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015 following the Global Offering or as at any subsequent dates.

	Audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015	Estimated net proceeds from the Global Offering	Pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015	Pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share	
	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB (Note 3)	HK\$ (Note 4)
Based on an Offer Price of					
HK\$1.80 per Offer Share	576,647	311,791	888,438	0.89	1.13
Based on an Offer Price of					
HK\$2.60 per Offer Share	576,647	469,511	1,046,158	1.05	1.33

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015 is extracted from the Accountants' Report set out in Appendix I to this Prospectus, which is based on the audited consolidated net assets of the Group attributable to the owners of the Company of RMB576,647,000 as at 30 June 2015.
- (2) The estimated net proceeds from the Global Offering are based on 250,000,000 Offer Shares the indicative Offer Prices of HK\$1.80 (equivalent to RMB1.42) and HK\$2.60 (equivalent to RMB2.05) per Offer Share, respectively, after deduction of underwriting fees and commissions and other estimated listing related expenses payable by the Company amounting to RMB43,079,000, other than listing expenses which has been recognised in profit or loss up to 30 June 2015, but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the general mandate granted to the Directors. For the purpose of the estimated net proceeds from the Global Offering, the amount stated in Hong Kong dollars is converted into Renminbi ("RMB") at the rate of HK\$1.00 to RMB0.7886, being the spot exchange rate as at 30 June 2015 with reference to the rate published by the People's Bank of China. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
- (3) The pro forma adjusted consolidated net tangible assets attributable to the owners of the Company per Share is arrived at on the basis that 1,000,000,000 Shares comprise of Shares in issue as at date of this prospectus and those Shares to be issued assuming that the Global Offering had been completed on 30 June 2015 and without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the general mandate granted to the Directors.
- (4) For the purpose of pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company per Share, the amount stated in RMB is converted into Hong Kong dollar at the rate of RMB0.7886 to HK\$1.00, being the spot exchange rate as at 30 June 2015 with reference to the rate published by the People's Bank of China. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at all.
- (5) No adjustment has been made to the audited consolidated net tangible assets of the Group attributable to the owners of the Company as at 30 June 2015 to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2015.

B. ASSURANCE REPORT FROM THE REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report receiving from Deloitte Touche Tohmatsu Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF CHINA HENGSHI FOUNDATION COMPANY LIMITED**

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma statement of adjusted net tangible assets as at 30 June 2015 and related notes as set out on page II-1 of Appendix II to the prospectus issued by the Company dated 8 December 2015 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on page II-1 of Appendix II to the Prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed Global Offering (as defined in the Prospectus) on the Group's financial position as at 30 June 2015 as if the proposed Global Offering had taken place at 30 June 2015. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2014 and the six months ended 30 June 2015, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 8 December 2015

The following is the text of a letter and a valuation certificate prepared for the purpose of incorporation in this prospectus received from Greater China Appraisal Limited, an independent valuer, in connection with their valuation as at 31 October 2015 of the real property interests of the Group.

GREATER CHINA APPRAISAL LIMITED
漢華評值有限公司

Room 2703
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

8 December 2015

The Directors
China Hengshi Foundation Company Limited
No. 1 Guang Yun South Road
Tongxiang Economic Development Zone
Tongxiang, Zhejiang Province
PRC

Dear Sirs,

In accordance with the instructions from China Hengshi Foundation Company Limited (referred to as the “Company”) for us to value the real property interests held by the Company and its subsidiaries (together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Company with our opinion of the market value of the real property interests as at 31 October 2015 (referred to as the “valuation date”) for inclusion in a public offering document.

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, title investigation of the real property and the limiting conditions.

I. BASIS OF VALUATION

The valuation of the real property interests is our opinion of the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing where the parties had each acted knowledgeably, prudently and without compulsion.”

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

II. VALUATION METHODOLOGY

Where, due to the nature of buildings and structures of the real property interests, there are no readily identifiable market comparable sales readily available. Such real property interests have therefore been valued on the basis of their depreciated replacement costs.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacing the improvements, less deduction for physical deterioration and all relevant forms of obsolescence and optimization. The reported market value only applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed. The depreciated replacement cost of the real property interest is subject to adequate potential profitability of the concerned business.

III. ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the real property interests on the open market in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase or decrease the value of the real property interests.

As the real property is held under long term land use rights, we have assumed that the owner of the real property has free and uninterrupted rights to use or transfer the real property interests for the whole of the unexpired term of the land use rights. In our valuation, we have assumed that the real property interests can be freely disposed of and transferred to third parties on the open market without any additional payment to the relevant government authorities.

All applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the valuation report.

No environment impact study has been ordered or made. Full compliance with applicable local, provincial and national environmental regulations and law is assumed. In addition, it is assumed that all required licences, consents or other legislative or administrative authorisation from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

Other specific assumptions of the valuation, if any, have been stated out in the footnote of the valuation certificate.

IV. TITLESHP INVESTIGATION

We have been provided with copies of legal documents regarding the title of the real property. However, due to the current registration system of the PRC, no investigation has been made for the legal title or any liabilities attached to the real property.

In course of our valuation, we have relied upon the legal opinion provided by the Company's PRC legal advisers — AllBright Law Offices in relation to the legal title of the real property.

All legal documents disclosed in this report, if any, are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the real properties set out in this report.

V. LIMITING CONDITIONS

We have inspected the exterior and, where possible, the interior of the real property. However, no structural survey has been made and we are therefore unable to report as to whether the real property is free from rot, infestation or any other structural defects. Also, no tests were carried out on any of the services.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the real property but have assumed that the areas shown on the documents provided to us are correct. Based on our experience of valuation of similar real properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

No soil investigations have been carried out to determine the suitability of the ground conditions or the services for any property development. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided and have accepted advice given to us by the Company on such matters as planning approvals, statutory notices, easements, tenure, occupation, site and floor areas and in the identification of the real property. We were also advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the real property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the real property is free of encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Since the real property is located in a relatively under-developed market, the PRC, those assumptions are often based on imperfect market evidence. A range of values may be attributable to the real property interests depending upon the assumptions made. While we have exercised our professional judgment in arriving at the value, report readers are urged to consider carefully the nature of such assumptions which are disclosed in the valuation report and should exercise caution in interpreting the valuation report.

VI. OPINION OF VALUE

Our opinion of the market value of the real property is shown in the attached valuation certificate.

VII. REMARKS

Our valuation has been prepared in accordance with generally accepted valuation procedures and in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

In valuing the real property interests, we have complied with the requirements contained in the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Site inspections of the real property were conducted on 25 March 2015 by Xu Hao (GDip) and re-inspection in September 2015. The real property was maintained in a reasonable condition commensurate with its respective ages and uses and equipped with normal building services.

All amounts are denominated in Renminbi (“RMB”).

We enclose herewith a valuation certificate.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
GREATER CHINA APPRAISAL LIMITED

Mr. Gary Man
Registered Professional Surveyor (G.P.)
FHKIoD, FRICS, MHKIS, MCIREA
Director

Note: Mr. Gary Man is a Chartered Surveyor who has more than 27 years of valuation experience in countries such as the PRC, Hong Kong, Singapore, Vietnam, Philippines and the Asia Pacific region.

VALUATION CERTIFICATE

Real Property held and occupied by the Group in the PRC

Real Property	Descriptions and Tenure	Particulars of Occupancy	Market Value in existing state as at 31 October 2015																								
			RMB (Renminbi One Hundred and Ninety Seven Million only)																								
A factory complex located at Nos.1, 145 Guangyun South Road, Wutong Jie Dao, Tongxiang City, Jiaxing City, Zhejiang Province, the PRC	<p>The real property comprises a parcel of land (the "Land") with a site area of approximately 128,566.89 square metres and 7 buildings (the "Buildings") thereon. The Buildings were completed between 2010 and 2015.</p> <p>The total gross floor area of the Buildings is approximately 127,692.24 square metres. Detailed breakdown is shown as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>No. of Blocks</th> <th>No of Storeys</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Industrial</td> <td>4</td> <td>2</td> <td>117,905.86</td> </tr> <tr> <td>Office</td> <td>1</td> <td>5</td> <td>4,919.57</td> </tr> <tr> <td>Dormitory</td> <td>1</td> <td>6</td> <td>3,494.85</td> </tr> <tr> <td>Canteen</td> <td>1</td> <td>2</td> <td>1,371.96</td> </tr> <tr> <td>Total:</td> <td>7</td> <td></td> <td>127,692.24</td> </tr> </tbody> </table> <p>The land use right of the Land have been granted for a term expiring on 16 October 2056 for industrial use.</p>		No. of Blocks	No of Storeys	Gross Floor Area (sq.m.)	Industrial	4	2	117,905.86	Office	1	5	4,919.57	Dormitory	1	6	3,494.85	Canteen	1	2	1,371.96	Total:	7		127,692.24	<p>The real property (except the leased out portion) is occupied by the Group for industrial, office and ancillary uses.</p> <p>Portion of the real property (84 rooms of the dormitory building) has been leased to Zhenshi Group Zhejiang Yushi International Logistics Company Limited for a term commencing from 1 January 2015 and expiring on 31 December 2015 with a total estimated annual rental of RMB302,000, exclusive of electricity and water charges, for dormitory use.</p>	197,000,000
	No. of Blocks	No of Storeys	Gross Floor Area (sq.m.)																								
Industrial	4	2	117,905.86																								
Office	1	5	4,919.57																								
Dormitory	1	6	3,494.85																								
Canteen	1	2	1,371.96																								
Total:	7		127,692.24																								

Notes:

- (i) According to a State-owned Land Use Rights Certificate (Tong Guo Yong (2014) Di No.10114), the land use rights of the Land has been granted to 振石集團恒石纖維基業有限公司 (translated as "Zhenshi Group Hengshi Fiberglass Fabric Co., Ltd." now known as Zhejiang Hengshi Fiberglass Fabrics Co., Ltd., "Hengshi Fiberglass"), a wholly-owned subsidiary of the Company, for a term expiring on 16 October 2056 for industrial use.
- (ii) According to 3 sets of State-owned Land Use Right Grant Contract, entered into between the Land and Resources Bureau of Tongxiang City and Hengshi Fiberglass all dated 20 April 2007, the land use rights of the portion of the Land with a total site area of approximately 102,032.91 square metres was contracted to be granted to Hengshi Fiberglass for a term of 50 years for industrial, mining and warehouse uses.
- (iii) According to a transfer agreement, entered into between 振石集團浙江宇石國際物流有限公司 (translated as "Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd.") and Hengshi Fiberglass dated 12 June 2014, the land use rights of the portion of the Land with a site area of approximately 26,532.91 square metres, the building ownerships of 4 buildings having a total gross floor area of approximately 6,528.12 square metres and some machineries were contracted to be transferred to Hengshi Fiberglass for industrial use at a consideration of RMB20,764,000.
- (iv) According to 7 sets of Building Ownership Certificates (Tong Fang Quan Zheng Tong Zi Di Nos. 00302976, 00206846, 00206847, 00217808, 00217809, 00217810 and 00325503), the building ownership of the Buildings with a total gross floor area of approximately 127,692.24 square metres is held by Hengshi Fiberglass.
- (v) The land use rights of the Land as mentioned in Note (i), together with the building ownership of 5 buildings (Building Ownership Certificates (Tong Fang Quan Zheng Tong Zi Di Nos. 00206846, 00206847, 00217808, 00217809 and 00217810) of the Buildings as mentioned in Note (iv) are subject to a mortgage in favour of Bank of China Tongxiang Sub-branch.
- (vi) We have been provided with a legal opinion regarding the real property interests issued by the Company's PRC legal advisers which are summarised below:
 1. Hengshi Fiberglass has obtained the land use rights of the Land mentioned in Note (i), and has the rights to occupy, use, transfer, lease, mortgage or by other means dispose of the land use rights of the Land;
 2. Hengshi Fiberglass has obtained the building ownership of the Buildings mentioned in Note (iv), and has the right to occupy, use, transfer, lease, mortgage or by other means dispose of the Buildings; and
 3. For the 84 rooms of the dormitory building which are subject to tenancy, the lessor and the lessee should register the tenancy at the relevant real estate management department. However, according to the relevant laws and regulations, for the industrial property subject to tenancy, there is no relevant punishment for the tenancy has not been registered. Although the aforesaid tenancy has not been registered, its validity would not be affected.

Set out below is a summary of certain provisions of the Memorandum of Association of the Company (the “**Memorandum**”) and Articles and of certain aspects of the Cayman Companies Law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 February 2015 under the Companies Law. The Memorandum and Articles were adopted pursuant to a shareholders’ resolution passed on 4 December 2015, conditional upon and with effect from the Listing Date comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Cayman Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Composition of the board*

Unless otherwise determined by the Company in general meeting, the number of directors shall not be less than two. There is no maximum number of directors.

(ii) *Power to allot and issue Shares and warrants*

Subject to the Articles, any direction that may be given by the Company in general meeting and, where applicable, the Listing Rules and without prejudice to any special rights or restrictions for the time being attached to any Shares or any class of Shares, all Shares for the time being unissued shall be under the control of the Directors who may designate, re-designate, offer, issue, allot and dispose of the same to such persons, in such manner, on such terms and having such rights and being subject to such restrictions as they may from time to time determine but so that no Shares shall be issued at a discount; and grant options with respect to such Shares and issue warrants, convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of Shares or securities in the capital of the Company on such terms as they may from time to time determine, and, for such purposes, the Directors may reserve an appropriate number of Shares for the time being unissued.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of Shares, to make, or make available, any such allotment, offer, option or Shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful, impracticable or inexpedient. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting.

(iv) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(v) *Loans and provision of security for loans to Directors*

There are provisions in the Articles restricting the making of loans or provision of security to Directors.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company.

Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the Shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Cayman Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the Board of Directors approving any contract or arrangement or any other proposal in which he or any of his close associate(s) has/ have a material interest, but this prohibition shall not apply in respect of the following matters:

- (aa) the giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associate(s) or obligations incurred or undertaken by him

or any of his close associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility, in whole or in part, whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) subject to Listing Rule 13.44 (as amended from time to time), any proposal concerning any other company in which the Director or his close associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his close associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his close associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his close associates is derived) or of the voting rights;
- (ee) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of:
 - (1) any employees' share scheme or any share incentive or a share option scheme under which a Director or his close associate(s) may benefit; or
 - (2) a pension fund or retirement, death or disability benefits scheme which relates both to directors, his close associate(s) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates; or
- (ff) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

A company shall be deemed to be a company in which a Director and/or his close associate(s) owns 5 per cent. or more if and so long as (but only if and so long as) he and/or his close associate(s), (either directly or indirectly) are the holders of or beneficially interested in 5 per cent. or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his close associate(s) is derived). For the purpose of this paragraph, there shall be disregarded any shares held by a Director or his close associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his close associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his close associate(s) is/are interested only as a unit holder.

Where a company in which a Director and/or his close associate(s) holds 5 per cent. or more is materially interested in a transaction, then that Director and/or his close associate(s) shall also be deemed materially interested in such transaction.

(vii) ***Remuneration***

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided

amongst the Directors in such proportions and in such manner as the board may agree and such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of Shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director or deputy managing director shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

(viii) *Retirement, appointment and removal*

Every Director shall be subject to retirement by rotation at an annual general meeting at least once every three years. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed to fill a casual vacancy by the Board of Directors shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. Any Director so appointed as an addition to the existing Board of Directors shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place.

The office of Director shall also be vacated if:

- (aa) the Director resigns his office by notice in writing to the Company at its registered office or its head office;
- (bb) an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (cc) the Director, without leave, is absent from meetings of Directors (unless an alternate Director appointed by him attends in his place) for a continuous period of 12 months, and the Directors resolve that his office be vacated;
- (dd) the Director becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) the Director ceases to be or is prohibited from being a director by law or by virtue of any provisions in the Articles;

- (ff) the Director is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office;
- (gg) the Director dies; or
- (hh) the Director is removed from office by an Ordinary Resolution of the members of the Company.

The Directors may from time to time appoint any person, whether or not a Director, to hold such office in the Company as the Directors may think necessary for the administration of the Company, including but not limited to, the office of president, one or more vice-presidents, treasurer, assistant treasurer, manager or controller, and for such term and at such remuneration (whether by way of salary or commission or participation in profits or partly in one way and partly in another), and with such powers and duties as the Directors may think fit. Any person so appointed by the Directors may be removed by the Directors.

The Directors may delegate to any such committee, local board, manager or agent any of the powers, authorities and discretions for the time being vested in the Directors and may authorise the members of any such local board, or any of them to fill any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation.

(ix) ***Borrowing powers***

The board may exercise all the powers of the Company to borrow money and to mortgage or charge all or part of its undertaking, property and uncalled capital or any part thereof, and subject to the Cayman Companies Law, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of the Company or of any third party. The provisions of the Articles in connection with the directors' borrowing powers may be varied with the sanction of a special resolution of the Company.

(x) ***Proceedings of the Board***

The board may meet together with (either within or outside the Cayman Islands) for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(xi) ***Register of Directors and Officers***

The Cayman Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of Directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty days of any change in such Directors or officers.

(b) Alterations to constitutional documents / Change of Name

The Articles may be altered or amended by the Company in general meeting by special resolution. The Cayman Companies Law provides that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Cayman Companies Law:

- (i) increase its capital by such sum, to be divided into Shares of such classes and amount, as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into Shares of larger amount than its existing Shares;
- (iii) convert all or any of its paid-up Shares into stock and reconvert that stock into paid-up Shares of any denomination;
- (iv) subdivide its Shares, or any of them into Shares of a smaller amount provided that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced Share shall be the same as it was in case of the Share from which the reduced Share is derived; or
- (v) cancel any Shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the Shares so cancelled.

The Company may by special resolutions reduce its Share capital and any capital redemption reserve in any manner authorised by law.

(d) Variation of rights of existing Shares or classes of Shares

Whenever the capital of the Company is divided into different classes the rights attached to any such class may, subject to any rights or restrictions for the time being attached to any class, only be varied or abrogated with the consent in writing of the holders of not less than three fourths of the issued Shares of the relevant class, or with the sanction of a resolution passed at a separate meeting of the holders of the Shares of such class by a majority of not less than three fourths of the votes cast at such a meeting. To every such separate meeting all the provisions of the Articles relating to general meetings of the Company or to the proceedings thereat shall *mutatis mutandis* apply except that the necessary quorum shall be one or more persons at least holding or representing by proxy one third in nominal or par value amount of the issued Shares of the relevant class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those shareholders who are present shall form a quorum) and that, subject to any rights or restrictions for the time being attached to the Shares of that class, every shareholder of the class shall on a poll have one vote for each Share of the class held by him.

The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, subject to any rights or restrictions for the time being attached to the Shares of that class, be deemed to be varied or abrogated by, *inter alia*, the creation, allotment or issue of further Shares ranking *pari passu* with or subsequent to them or the redemption or purchase of any Shares of any class by the Company.

(e) Transfer of Shares

Title to the Company's Shares registered in the branch register of the Company may be evidenced and transferred in accordance with Hong Kong law and the Listing Rules.

Transfers of Shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve, which is consistent with the standard form of transfer as approved by the Directors or prescribed by the Stock Exchange as appropriate. Copies of instruments of transfer must be left at the registered office of the Company or at such other place as the Directors may appoint. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the Share until the name of the

transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any Share which is not fully paid up, and it may also refuse to register any transfer of any Share to more than four joint holders or any transfer of any Share on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of Share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on 14 days' notice being given by announcement published on the Stock Exchange's website, or, subject to and in accordance with the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles or by advertisement published in any newspapers, be suspended and the register of Shares closed at such times for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended or the register of Shares closed for more than 30 days in each year.

(f) Power for the Company to purchase its own Shares

The Company is empowered by the Cayman Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements of the Listing Rules.

(g) Power for any subsidiary of the Company to own Shares in the Company

There are no provisions in the Articles relating to ownership of Shares in the Company by a subsidiary.

(h) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles, and not more than 15 months shall elapse (or such longer period as the Stock Exchange may authorise) between the date of one annual general meeting of the Company and that of the next at such time and place as may be determined by the Board.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than 21 clear days. Any other general meetings (including an extraordinary general meeting) shall be called by notice of at least 14 clear days. The notice shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and in the case of special business (as defined in the Articles) the general nature of that business. Notice of every general meeting shall be given to all members of the Company (except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the share register), the Company's auditors, each Director and alternate Director, and such other person(s) to whom such notice is required to be given in accordance with the Listing Rules or as required by the Stock Exchange.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, if permitted by the Listing Rules, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together representing at least 95% of the total voting rights at the meeting of all the members.

All business carried out at a general meeting shall be deemed special with the exception of (a) the declaration and sanctioning a dividend; (b) the consideration of the accounts, balance sheets and any report of the Directors or of the Company's auditors; (c) the election of Directors whether by rotation or otherwise in the place of those retiring; (d) the appointment of the Company's auditors and other officers; (e) the fixing of the remuneration of the company's auditors, and the voting of remuneration or extra remuneration to the Directors; (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued Shares in the capital of the Company as permitted by the Listing Rules; and (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

No special business shall be transacted at any general meeting without the consent of all members of the Company entitled to receive notice of that meeting unless notice of such special business has been given in the notice convening that meeting.

(j) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business.

Save as otherwise provided by the Articles, the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights, the necessary quorum shall be one or more persons holding or representing by proxy not less than one third in nominal value of the issued Shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(k) Special/ Ordinary resolution-majorities required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three fourths of such members as, being entitled so to do, vote in person or, in the case of such members being corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice, specifying the intention to propose the resolution as a special resolution, has been duly given, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of such members as, being entitled to do so, vote in person or, in the case of such members being corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles, or in writing by all members of the Company entitled to vote at a general meeting of the Company.

(l) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any Shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully

paid Share of which he is the holder but so that no amount paid up or credited as paid up on a Share in advance of calls or instalments is treated for the foregoing purposes as paid up on the Share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company, it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the Shares of the Company held by that clearing house (or its nominee(s)).

Where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(m) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise.

(n) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Cayman Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the Listing Rules, the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the Directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company send to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the Directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(o) Dividends and other methods of distribution

Subject to any rights and restrictions for the time being attached to any Shares, or as otherwise provided for in the Cayman Companies Law and the Articles, the Directors may from time to time declare dividends (including interim dividends) and other distributions on Shares in issue and authorise payment of the same out of the funds of the Company lawfully available therefor. Subject to any rights and restrictions for the time being attached to any Shares, the Company by ordinary resolution may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of Shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of Shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the Shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such Shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared, the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any Share shall bear interest against the Company.

(p) Inspection of branch register

Pursuant to the Articles, the Company's branch register in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the directors may impose) be open to inspection by a member without charge and any other person on payment of such fee not exceeding HK\$0.25 (or such higher amount as may from time to time be permitted under the Listing Rules) as the directors may determine for each inspection.

(q) Call on Shares and forfeiture of Shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any moneys unpaid on the Shares held by them (whether on account of the nominal value of the Shares or by way of premium). If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person from whom the sum is due shall pay interest upon the sum at the rate of eight per cent. per annum from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the moneys uncalled and unpaid or instalments payable upon any Shares held by him, and upon all or any of the moneys so advanced the Company may pay interest at such rate (not exceeding, without the sanction of an Ordinary Resolution, eight per cent. per annum) as may be agreed upon between the member and the board.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the Shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any Share in respect of which notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the date of forfeiture.

A person whose Shares have been forfeited shall cease to be a member in respect of the forfeited Shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the Shares, but this liability shall cease if and when the Company receives payment in full of the amount unpaid on the Shares forfeited.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix IV.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution, except where the Company is to be wound up voluntarily because it is unable to pay its debts as they fall due. In such case the resolution shall be an ordinary resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of Shares, (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the Shares held by them respectively, and

(ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the authority of an ordinary resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any Shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the Shares of a member who is untraceable if (i) cheques or warrants in respect of dividends of the Shares in question, for any sum payable in cash to the holder of such Shares in respect of them sent during the relevant period in the manner authorised by the Articles, have remained uncashed on at least three occasions; (ii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the member who is the holder of such Shares or of a person entitled to such Shares by death, bankruptcy or operation of law; and (iii) the Company, if so required by the Listing Rules, has, at the end of the relevant period, given notice to, and caused an advertisement to be published in the newspapers of its intention to sell such Shares in the manner required by the Stock Exchange, and a period of three months or such shorter period as may be allowed by the Stock Exchange has elapsed since the date of such advertisement. For the purpose of the foregoing, the “relevant period” means the period commencing twelve years before the date of publication of the advertisement referred to in subparagraph (iii) and ending at the expiry of the period referred to in that subparagraph.

The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN COMPANIES LAW

The Company is incorporated in the Cayman Islands and is, therefore, subject to the Cayman Companies Law and Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Operations

As a Cayman Islands exempted company, the Company’s operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share Capital

The Cayman Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Cayman Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) in any manner provided in section 37 of the Cayman Companies Law; (d) writing off the preliminary expenses of the company; and (e) writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Cayman Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Memorandum and Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial Assistance to Purchase Shares of a Company or its Holding Company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the Directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of Shares and Warrants by a Company and its Subsidiaries

Subject to the provisions of the Cayman Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of the purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the Directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and Distributions

With the exception of section 34 of the Cayman Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Cayman Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account.

(f) Protection of Minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up. Or, as an alternative to a winding-up order, the Court may make the following orders: (a) an order regulating the conduct of the company's affairs in the future; (b) an order requiring the company to refrain from doing or continuing an act complained of by the petitioner or to do an act which the petitioner has complained it has omitted to do; (c) an order authorising civil proceedings to be brought in the name of and on behalf of the company by the petitioner on such terms as the Court may direct; or (d) an order providing for the purchase of the shares of any members of the company by other members or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by such company's memorandum and articles of association.

(g) Management

The Cayman Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and Auditing Requirements

A Cayman Islands exempted company shall cause proper books of account, including, where applicable, material underlying documentation including contracts and invoices to be kept with respect to (i) all sums of

money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company. Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions. A Cayman Islands exempted company shall cause all its books of account to be retained for a minimum period of five years from the date on which they are prepared.

(i) Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has applied for and expects to receive an undertaking from the Governor-in-Cabinet:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (ii) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking to the Company is for a period of twenty years from the date of the tax undertaking certificate. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to Directors

There is no express provision in the Cayman Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of Corporate Records

Members of the Company will have no general right under the Cayman Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. An exempted company may also maintain a separate register of members in respect of its listed shares. There is no requirement under the Cayman Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding Up

A company may be wound up by either an order of the Court, voluntarily or subject to the supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily (a) when the period (if any) fixed for the duration of the company by its memorandum or articles of association expires; (b) if the event (if any) occurs, on the occurrence of which the memorandum or articles of association provide that the company is to be wound up; (c) if the company resolves by special resolution that it be wound up voluntarily; or (d) if the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company shall from the commencement of its winding up cease to carry on its business except so far as it may be beneficial for its winding up.

In circumstances where a company is solvent (the directors of the company will need to provide a statutory declaration to this effect), the company can be wound up by a special resolution of its shareholders, and the liquidation will not require the supervision of the Court. Unless one or more persons have been designated as liquidator or liquidators of the company in the company's memorandum and articles of association, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Alternatively, where the financial position of the company is such that a declaration of solvency cannot be given by the directors, the winding up will be initiated by an ordinary resolution of the company's shareholders and will occur subject to the supervision of the Court. In this case, a licensed insolvency practitioner will need to be appointed as liquidator (known as "an official liquidator"). The Court may determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner. A person may qualify as an official liquidator if that person holds the qualifications specified in the Insolvency Practitioners Regulations of the Cayman Islands. The Court may appoint a foreign practitioner to act jointly with a qualified insolvency practitioner.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation for it. At least 21 days before the meeting, the liquidator must send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Cayman Islands Gazette.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. While a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Mergers and Consolidations

The Cayman Companies Law provides that any two or more Cayman Islands companies limited by shares (other than segregated portfolio companies) may merge or consolidate in accordance with the Cayman

Companies Law. The Cayman Companies Law also allows one or more Cayman Islands companies to merge or consolidate with one or more foreign companies (provided that the laws of the foreign jurisdiction permit such merger or consolidation).

To effect a merger or consolidation of one or more Cayman Islands companies the directors of each constituent company must approve a written plan of merger or consolidation (the “**Plan**”) in accordance with the Cayman Companies Law. The Plan must then be authorised by each constituent company by a special resolution of members and such other authorisation, if any, as may be specified in such constituent company’s articles of association.

Where a Cayman Islands parent is merging with one or more of its Cayman Islands subsidiaries, shareholder consent is not required if a copy of the Plan is given to every member of each subsidiary company to be merged, unless that member agrees otherwise.

To effect a merger or consolidation of one or more Cayman Islands companies with one or more foreign companies, in addition to the approval requirements applicable to the merger or consolidation of Cayman Islands companies (in relation to Cayman Islands company(ies) only), the merger or consolidation must also be effected in compliance with the constitutional documents of, and laws of the foreign jurisdiction applicable to, the foreign company(ies).

(q) Compulsory Acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety per cent of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company’s articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g., for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Walkers, the Company’s legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Cayman Companies Law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed “Documents Available for Inspection” in Appendix VI to this prospectus. Any person wishing to have a detailed summary of the Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation**

The Company was incorporated in the Cayman Islands on 23 February 2015 under the Cayman Companies Law as an exempted company with limited liability. The registered office of the Company is at the offices of Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The Company has established a place of business in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong, and has been registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 26 June 2015. Wong Sau Ping has been appointed as the authorised representative of the Company for acceptance of service of process in Hong Kong. The address for acceptance of service of process in Hong Kong is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

As the Company was incorporated in the Cayman Islands, its operations is subject to the Cayman Companies Law and to the Memorandum and Articles of Association. A summary of certain aspects of the Cayman Companies Law and a summary of certain provisions of our Memorandum and the Articles of Associations are set out in the section headed “Appendix IV — Summary of the Constitution of the Company and Cayman Islands Company Law” to this prospectus.

2. Changes in Share Capital

As at the date of incorporation, the Company had an authorised share capital of US\$50,000, divided into 50,000 shares of US\$1.00 each.

The following sets out the changes in the share capital of the Company during the two years immediately preceding the date of this prospectus:

On 23 February 2015, we allotted and issued one subscriber share at par value of US\$1.00 to Walkers Nominees Limited. On the same day, the one subscriber share was transferred to Huachen Investment Limited at par of US\$1.00.

On 23 February 2015, we allotted and issued 93,579 fully paid Shares to Huachen Investment Limited at par of US\$1.00. On the same day, we allotted and issued 5,421 fully paid Shares to Huakai Investment Limited at par of US\$1.00.

On 1 April 2015, Huachen Investment Limited transferred 10,632 Shares of US\$1.00 par value to Huakai Investment Limited, 30.0 Shares of US\$1.00 par value to Trade Power Investments Limited, and 10.0 Shares of US\$1.00 par value to Joyfar Limited.

On 7 May 2015, every issued and unissued Share of US\$1.00 par value each was sub-divided into 1,000 Shares of US\$0.001 par value each. In consequence, the 100 issued Shares of US\$1.00 par value each were sub-divided into 100,000 Shares of US\$0.001 par value each, and the 49,900 authorised but unissued Shares of US\$1.00 par value each were sub-divided into 49,900,000 Shares of US\$0.001 par value each. On the same day, the authorised share capital of the Company was increased from US\$50,000 divided into 50,000,000 Shares of US\$0.001 par value each, to US\$2,000,000 divided into 2,000,000,000 Shares of US\$0.001 par value each. Subsequent to the sub-division, of the 100,000 issued Shares, 43,947 Shares were held by Huachen Investment Limited, 16,053 Shares were held by Huakai Investment Limited, 10,000 Shares were held by Joyfar Limited, and 30,000 Shares were held by Trade Power Investments Limited.

On 19 August 2015, we allotted and issued to Huachen Investment Limited, Huakai Investment Limited, Joyfar Limited, and Trade Power Investments Limited 329,558,553 Shares, 120,381,447 Shares, 74,990,000 Shares and 224,970,000 Shares, respectively, for consideration of US\$43,583,822, US\$15,920,277, US\$9,917,350 and US\$29,752,050, respectively.

Save as disclosed above, there has been no alteration in the share capital of the Company during the two years immediately preceding the date of this prospectus.

3. Resolutions in writing of the Shareholders of the Company passed on 7 May 2015 and 4 December 2015, respectively

- I. Pursuant to the written resolutions passed by the Shareholders on 7 May 2015, the Company approved:
- (a) a subdivision of Shares pursuant to which the 100 issued Shares and the 49,900 unissued Shares of US\$1.00 par value each were subdivided into 100,000 issued Shares of US\$0.001 par value each and 49,900,000 unissued Shares of US\$0.001 par value each, respectively;
 - (b) an increase in the authorised share capital of the Company from US\$50,000 divided into 50,000,000 Shares of US\$0.001 par value each, to US\$2,000,000 divided into 2,000,000,000 Shares of US\$0.001 par value each; and
 - (c) the change of name of the Company from “Hengshi Holdings” to “China Hengshi Foundation Company Limited (中國恒石基業有限公司)”.
- II. Pursuant to the written resolutions passed by the Shareholders on 4 December 2015:
- (a) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, (ii) the Offer Price being fixed on the Price Determination Date and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
 - (i) the Company approved and adopted the Articles of Association which will come into effect upon the Listing;
 - (ii) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to allot and issue the new Shares pursuant to the Global Offering and the Over-allotment Option;
 - (iii) the granting of the Over-allotment Option was approved; and
 - (iv) the proposed Listing was approved and the Directors were authorised to implement the Listing;
 - (b) a general unconditional mandate was granted to the Directors to allot, issue and deal with Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities and to make or grant offers, agreements or options which would or might require the exercise of such powers, provided that the aggregate number of Shares allotted or agreed to be allotted by the Directors other than pursuant to (i) a rights issue, (ii) any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with our Articles, (iii) the exercise of any subscription or conversion into Shares or in issue prior to the date of passing the relevant resolution or (iv) a specific authority granted by the Shareholders in general meeting, shall not exceed the aggregate of (x) 20% of the total number of shares of the Company in issue immediately following the completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and (y) the total number of shares of the Company repurchased by the Company (if any) under the general mandate to repurchase Shares referred to in paragraph (c) below, such mandate to remain in effect during the period from the passing of the resolution until the earliest of the conclusion of our next annual general meeting, the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting (the “**Applicable Period**”);
 - (c) a general unconditional mandate was granted to the Directors to exercise all the powers of the Company to repurchase on the Stock Exchange or any other stock exchange on which the

securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose Shares with a total number of not more than 10% of the total number of shares of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect during the Applicable Period; and

- (d) the general unconditional mandate mentioned in paragraph (b) above be extended by the addition to the aggregate number of share of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of such number of shares representing the aggregate number of shares of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (c) above, provided that such extended amount shall not exceed 10% of the aggregate number of the Company's shares in issue immediately following completion of the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

4. Reorganisation

In order to rationalise our structure and prepare for the Listing, the Group has undertaken several restructuring steps. See the section headed "Our History, Reorganisation and Corporate Structure" in this prospectus for details.

5. Changes in Share Capital of Our Subsidiaries

A summary of the corporate information and the particulars of our subsidiaries are set out in the accountants' report as set out in Appendix I to this prospectus. Save for the subsidiaries mentioned in the accountants' report set out in Appendix I to this prospectus, the Company has no other subsidiaries.

Save as disclosed in the section headed "Our History, Reorganisation and Corporate Structure" in this prospectus, there have been no alterations in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase of Our Own Securities

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders in general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our then Shareholders on 4 December 2015, a general unconditional mandate (the "**Repurchase Mandate**") was given to the Directors authorising any repurchase by the Company of Shares on the Stock Exchange or on any other stock exchange on which the securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of not more than 10% of the aggregate number of the Company's shares in issue immediately following the completion of the Global Offering, such mandate to expire at the conclusion of our next annual general meeting, or the expiration of the period within which we are required by any applicable laws or our Articles to hold our next annual general meeting or the date on which the resolution is varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

(ii) *Source of Funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with our Memorandum and our Articles, the Listing Rules and the applicable laws of the Cayman Islands.

A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time. Subject to the foregoing, any repurchases by the Company may be made out of the profits of our Company, out of the share premium account of the Company or out of a fresh issue of Shares made for the purpose of the repurchase or, subject to the Cayman Companies Law, out of capital and, in the case of any premium payable on the purchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, subject to the Cayman Companies Law, out of capital.

(iii) *Trading Restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iv) *Status of Repurchased Shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(v) *Suspension of Repurchase*

A listed company may not make any repurchase of securities on the Stock Exchange at any time after inside information has come to its knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) *Connected Persons*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a core connected person (as defined in the Listing Rules) and a core connected person is prohibited from knowingly selling his securities to the listed company.

(b) *Reasons for Repurchases*

The Directors believe that the ability to repurchase Shares is in the interests of the Company and our Shareholders. Repurchases may, depending on market conditions, funding arrangements and other circumstances, result in an increase in the net assets and/or earnings per Share. The Directors sought the grant of a general mandate to repurchase Shares to give the Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then pertaining. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and our Shareholders.

(c) *Funding of Repurchases*

In repurchasing securities, the Company may only apply funds lawfully available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands. There could be a material adverse impact on the working capital and/or gearing position of the Company (as compared with the position disclosed in this prospectus) in the event that the repurchase mandate were to be carried out in full at any time during the share repurchase period. However, the Directors do not propose to exercise the general mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(d) *General*

The exercise in full of the repurchase mandate, on the basis of 1,000,000,000 Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), could accordingly result in up to approximately 100,000,000 Shares being repurchased by the Company during the period prior to:

- (i) the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which we are required by any applicable law or our Articles to hold our next annual general meeting; or
- (iii) the date when the repurchase mandate is varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or our subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the Listing Rules and the applicable laws in the Cayman Islands.

No core connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

If, as a result of any repurchase of Shares pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the repurchase mandate.

Any repurchase of the Shares that results in the number of the Shares held by the public falling below 25% of the total number of the Shares in issue, being the relevant minimum prescribed percentage as required by the Stock Exchange, could only be implemented if the Stock Exchange agreed to waive the requirement regarding the public float under Rule 8.08 of the Listing Rules. However, the Directors have no present intention to exercise the repurchase mandate to such an extent that, under the circumstances, there would be insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of Material Contracts



The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share transfer agreement dated 15 April 2015 between Zhenshi and Huajin Capital Limited relating to the acquisition of 60.0% equity interest in Hengshi Fiberglass for a consideration of US\$59,504,098.65;
- (b) a share transfer agreement dated 15 April 2015 between Fame Success Investments Limited and Huajin Capital Limited relating to the acquisition of 40.0% equity interest in Hengshi Fiberglass for a consideration of US\$39,669,399.10;
- (c) the letter of undertaking dated 22 May 2015 issued by China Jushi in favour of Hengshi Fiberglass, pursuant to which China Jushi agreed to irrevocably indemnify the Company and its subsidiaries against all the direct and indirect losses arising from the patent disputes, the details of which are set out in the section headed "Business — Regulatory Compliance and Legal Proceedings" in this prospectus;
- (d) a cornerstone placing agreement dated 4 December 2015 and entered into between China Building Material Holdings Co., Limited ("CBMH"), Morgan Stanley Asia Limited and the Company, pursuant to which CBMH agreed to subscribe for the Offer Shares in the amount of US\$10,000,000, the details of which are set out in the section headed "Our Cornerstone Investor — Our Cornerstone Investor" in this prospectus;
- (e) the Hong Kong Underwriting Agreement; and
- (f) the lock-up undertaking dated 7 December 2015 made as a deed by Huakai Investment Limited and Mr. Zhang Jiankan in favour of the Company and the Sole Global Coordinator.

2. Intellectual property rights of the Group

(a) Trademarks

We have been licensed by Zhenshi to have non-exclusive use right over the following trademarks which we consider to be material in relation to our Group's business:

No.	Registered Trademark	Place of Registration	Name of Registered Proprietor / Applicant	Registration No.	Class	Registration Date	Expiry Date
1		PRC	Zhenshi	4633473	17	29 April 2005	6 November 2018
2		PRC	Zhenshi	7754498	17	28 January 2011	28 January 2021

(b) *Patents*

As at the Latest Practicable Date, our material patents were as follows:

No.	Patent	Place of Registration	Patent holder	Patent No.	Authorisation Date	Expiry Date
1	Glass fiber heat-melting soldering apparatus (玻璃纖維熱熔焊接裝置)	PRC	Hengshi Fiberglass	ZL200820164683.4	15 July 2009	11 September 2018
2	Warp yarn porcelain eye plate device of stitch-knitting machine (縫編織機經紗瓷眼板裝置)	PRC	Hengshi Fiberglass	ZL200820168041.1	16 September 2009	12 November 2018
3	Faceplate device of stitch-knitting machine (縫編織機的花盤裝置)	PRC	Hengshi Fiberglass	ZL200920114186.8	27 January 2010	25 February 2019
4	Weft settlement device (緯紗沉降裝置)	PRC	Hengshi Fiberglass	ZL201020160056.0	24 November 2010	14 April 2020
5	Protective equipment for weft laying device (鋪緯器防護裝置)	PRC	Hengshi Fiberglass	ZL201020160049.0	24 November 2010	14 April 2020
6	Arc-shaped porcelain eye plate device (弧形瓷眼板裝置)	PRC	Hengshi Fiberglass	ZL201020160051.8	24 November 2010	14 April 2020
7	Warp break protector of weaving machine (織機經紗斷經保護裝置)	PRC	Hengshi Fiberglass	ZL201020545788.1	4 May 2010	27 September 2020
8	Spacing type stitch-knitting method (間隔式縫編方法)	PRC	Hengshi Fiberglass	ZL200910095976.0	13 July 2011	25 February 2029
9	Wood comb device for weft laying device (用於鋪緯器的木梳裝置)	PRC	Hengshi Fiberglass	ZL201120074140.5	2 November 2011	20 March 2021
10	Experimental device of fiberglass fabrics soaking and fiberglass-reinforced laminated boards production (玻璃纖維織物浸透檢測與玻璃鋼層壓板製作的實驗裝置)	PRC	Hengshi Fiberglass	ZL201120199474.5	18 January 2012	13 June 2021
11	Sample milling device for detecting (檢測用銑樣裝置)	PRC	Hengshi Fiberglass	ZL201220203844.2	30 January 2013	5 October 2022

No.	Patent	Place of Registration	Patent holder	Patent No.	Authorisation Date	Expiry Date
12	Adjustable tension device (可調節張力裝置)	PRC	Hengshi Fiberglass	ZL201220370884.6	13 February 2013	29 July 2022
13	Multifunctional creel (一種多功能紗架)	PRC	Hengshi Fiberglass	ZL201220369784.1	8 May 2013	29 July 2022
14	Stitch knitting device of secondary-forming biaxial multi-angle glass fiber fabric (一種二次成型雙軸向多角度玻璃纖維織物的縫編裝置)	PRC	Hengshi Fiberglass	ZL201220519546.4	8 May 2013	10 October 2022
15	Roller protecting and lifting device (羅拉保護托舉裝置)	PRC	Hengshi Fiberglass	ZL201220519660.7	8 May 2013	10 October 2022
16	Warp yarn guiding and conveying device (經紗導送裝置)	PRC	Hengshi Fiberglass	ZL201320535852.1	9 April 2014	29 August 2023
17	Synchronous cleaning device (同步清潔裝置)	PRC	Hengshi Fiberglass	ZL201320535937.X	9 April 2014	29 August 2023
18	Anti-chain-breakage laser monitoring device (防斷鏈激光監控裝置)	PRC	Hengshi Fiberglass	ZL201320720657.6	14 May 2014	14 November 2023
19	Automatic yarn binding detection and suspension device of stitch-knitting machine (織機捆綁紗檢測自停裝置)	PRC	Hengshi Fiberglass	ZL201420604785.9	11 February 2015	19 October 2024
20	Heating and cutting device of thermo plasticity pre-impregnated fabric (熱塑性預浸織物的加熱切割裝置)	PRC	Hengshi Fiberglass	ZL201420604759.6	11 February 2015	19 October 2024
21	Roller protecting and lifting device (羅拉保護托舉裝置)	PRC	Hengshi Fiberglass	ZL201210383738.1	19 March 2015	18 March 2035
22	Warp yarn guiding and conveying device (經紗導送裝置)	PRC	Hengshi Fiberglass	ZL201310386865.1	14 May 2015	13 May 2035

As at the Latest Practicable Date, the Group had applied for the registration of the following material patents:

1. Patents under application

No.	Patent	Place of Application	Name of Applicant	Application No.	Application Date
1	A detecting clamp of improving the mechanical fatigue properties of composite materials (一種提高複合材料力學疲勞性能的檢測夾具)	PRC	Hengshi Fiberglass	201420549015.9	23 September 2014
2	A vacuum forming composite mould (一種真空成型複合材料的模具)	PRC	Hengshi Fiberglass	201410488744.2	23 September 2014
3	A detecting clamp and method of improving the mechanical fatigue properties of composite materials (一種提高複合材料力學疲勞性能的檢測夾具和方法)	PRC	Hengshi Fiberglass	201410489396.0	23 September 2014
4	Mechanical properties of composite materials test device (用於複合材料力學性能的測試設備)	PRC	Hengshi Fiberglass	201410711749.7	28 November 2014
5	A clamp used to test mechanical properties of composite materials (用於複合材料力學性能測試設備的夾具)	PRC	Hengshi Fiberglass	201410709164.1	28 November 2014
6	Fabric online shearing device (織物線上分切裝置)	PRC	Hengshi Fiberglass	201310550292.1	8 November 2013
7	Warp yarn guiding and conveying device (經紗導送裝置)	PRC	Hengshi Fiberglass	201310386865.1	30 August 2013

(c) *Domain names*

As at the Latest Practicable Date, our material domain names were as follows:

No.	Domain Name	Registrant	Date of Registration	Expiry Date
1	chinahengshi.com.cn	Hengshi Fiberglass	24 May 2006	24 June 2016

C. FURTHER INFORMATION ABOUT THE DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of Interest*

Interests and Short Positions of the Directors and the General Manager of the Company

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is not exercised, the interests and short positions of the Directors or the General Manager of the Company in the Shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions

by Directors of Listed Companies to be notified to the Company and the Stock Exchange, once the Shares are listed, are as follows:

Long position in the Shares, underlying shares and debentures of the Company:

<u>Name of Director</u>	<u>Nature of interest</u>	<u>Number of Shares held</u>	<u>Approximate % of interest in the Company⁽¹⁾</u>
Mr. Zhang Yuqiang ⁽²⁾	Interest of controlled corporations	329,602,500	32.96
Mr. Zhang Jiankan ⁽³⁾	Interest of controlled corporations	120,397,500	12.04
Mr. Tang Hsin-hua ⁽⁴⁾	Interest of controlled corporations	225,000,000	22.50

Notes:

- (1) The calculation is based on the total number of 1,000,000,000 Shares in issue immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).
- (2) Mr. Zhang Yuqiang directly holds 95.95% of the issued share capital of Huachen Investment Limited which in turn holds 329,602,500 Shares of the Company (representing 32.96% of the interest in the Company) and is deemed to be interested in the Shares held by Huachen Investment Limited for the purpose of the SFO.
- (3) Mr. Zhang Jiankan directly holds 100% of the issued share capital of Huakai Investment Ltd which in turn holds 120,397,500 Shares of the Company (representing 12.04% of the interest in the Company) and is deemed to be interested in the Shares held by Huakai Investment Ltd for the purpose of the SFO.
- (4) Mr. Tang Hsin-hua indirectly holds (through his 100% direct interest in Soar City Investments Limited) 100% of the issued share capital of Trade Power Investments Limited which in turn holds 225,000,000 Shares of the Company (representing 22.50% of the interest in the Company) and is deemed to be interested in the Shares held by Trade Power Investments Limited for the purpose of the SFO.

Interests of the Substantial Shareholders

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, the Directors are not aware of any other person, not being a Director or the General Manager of the Company, who has an interest or short position in the Shares or the underlying shares which, once the Shares are listed, would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

See the section headed “Substantial Shareholders” in this prospectus for details of the interest and/or short positions in the Shares or the underlying shares of the Company of our substantial Shareholders.

(b) *Service Contracts*

None of the Directors has or is proposed to have a service contract with any member of the Group other than contracts expiring or determinable by the employer within one year without the payment of compensation other than the statutory compensation. Please refer to “Directors and Senior Management – Directors’ and Senior Management’s Compensation” for further details of the service contracts and remunerations of the Directors.

2. Interest in Material Contract or Arrangement

Save as disclosed in this prospectus, there is no contract or arrangement subsisting at the date of this prospectus in which a Director is materially interested and which is significant in relation to the business of the Group.

D. OTHER INFORMATION**1. Estate Duty**

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries.

2. Litigation

Save as disclosed in this prospectus, so far as the Company is aware, no litigation or claim of material importance is pending or threatened against any member of the Group.

3. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Sole Sponsor will receive a sponsors' fee in the amount of US\$1,000,000 for acting as the sponsor of the Listing.

4. Consents of Experts

The following experts have each given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they are respectively included.

Name	Qualification
Morgan Stanley Asia Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
AllBright Law Offices	PRC legal adviser
Walkers Global	Cayman Islands attorneys-at-law
Mena Associates in association with Amereller Rechtsanwälte	Egyptian legal adviser
Germanischer Lloyd Industrial Services (Shanghai) Co. Ltd.	Industry consultant
Greater China Appraisal Limited	Independent property valuer

Save as disclosed in this prospectus, none of the experts named above has any shareholding interest in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its subsidiaries.

5. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

6. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

7. Preliminary Expenses

The preliminary expenses incurred and paid by the Company were approximately HK\$600,000.

8. Disclaimers

(a) Save as disclosed in this prospectus:

- (i) within the two years immediately preceding the date of this prospectus, neither the Company nor any of its subsidiaries has issued or agreed to issue any share or loan capital fully or partly paid up either for cash or for a consideration other than cash;
- (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
- (iv) within the two years immediately preceding the date of this prospectus, no commission has been paid or payable (except commission to sub-underwriters) to any persons for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares of the Company or any of its subsidiaries;
- (v) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;
- (vi) the Company has no outstanding convertible debt securities or debentures;
- (vii) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (viii) none of our Directors nor the experts named in the paragraph headed “D. Other Information — 4. Consents of Experts” in this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to, any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) The Directors confirm that there has not been any interruption in the business of the Company which may have or have had a material adverse effect on the financial position of the Company in the 12 months immediately preceding the date of this prospectus.

(c) None of the equity and debt securities of the Company, if any, is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE, YELLOW** and **GREEN** application forms, the written consents referred to in the section headed “Appendix V — D. Other Information — Consents of Experts” to this prospectus and copies of the material contracts referred to in the section headed “Appendix V — B. Further Information about our Business — Summary of Material Contracts” to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Slaughter and May, at 47/F, One Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the accountants’ report for the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for each of the three years ended 31 December 2012, 2013 and 2014 and six months ended 30 June 2015;
- (d) the assurance report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (e) the property valuation report prepared by Greater China Appraisal Limited, the text of which is set out in Appendix III to this prospectus;
- (f) the letter prepared by Walkers Global, our Cayman legal adviser, summarising certain aspects of Cayman Companies Law as referred to in Appendix IV to this prospectus;
- (g) the material contracts referred to in the section headed “Appendix V — B. Further Information about our Business — Summary of Material Contracts” to this prospectus;
- (h) the written consents referred to in the section headed “Appendix V — D. Other Information — Consents of Experts” to this prospectus;
- (i) the PRC legal opinions issued by AllBright Law Offices, our PRC Legal Adviser, in respect of certain aspects of the Group and our property interests; and
- (j) DNV GL Report.



中國恒石基業有限公司

China Hengshi Foundation Company Limited