



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

INTERIM REPORT 2016



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Corporate Profile

China Hengshi Foundation Company Limited (the “Company”) is the world-leading producer and supplier of fiberglass fabrics used in wind turbine blades and is the only PRC-based company among the top three manufacturers and suppliers in the world. The Company has the largest exporting volume of fiberglass fabrics used in wind turbine blades among domestic companies.

As of now, the Company owns two production bases in Zhejiang of China and Suez of Egypt. Its products are exported to countries and areas including Europe, America, Middle East, and Southeast Asia, and enjoy a relatively high credibility in the domestic and overseas markets. We offer 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 used in the wind power generation 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. In recent years, more than 80% of the revenue of the Company was generated from wind power related sector.

Corporate Information

BOARD OF DIRECTORS

Non-Executive Directors

Mr. ZHANG Yuqiang (張毓強) (*Chairman*)
Mr. ZHANG Jiankan (張健侃)
Mr. TANG Hsin-hua (唐興華)
Mr. WANG Yuan (王源)

Executive Directors

Mr. ZHOU Tingcai (周廷才)
Ms. HUANG Junjun (黃鈞筠)

Independent Non-Executive Directors

Mr. FANG Xianbai (方賢柏)
Mr. PAN Fei (潘飛)
Mr. CHEN Zhijie (陳志傑)

AUDIT COMMITTEE

Mr. FANG Xianbai (方賢柏) (*Chairman*)
Mr. WANG Yuan (王源)
Mr. PAN Fei (潘飛)

REMUNERATION COMMITTEE

Mr. FANG Xianbai (方賢柏) (*Chairman*)
Mr. ZHANG Jiankan (張健侃)
Mr. PAN Fei (潘飛)

NOMINATION COMMITTEE

Mr. ZHANG Yuqiang (張毓強) (*Chairman*)
Mr. FANG Xianbai (方賢柏)
Mr. CHEN Zhijie (陳志傑)

JOINT COMPANY SECRETARIES

Mr. YIN Hang (尹航)
Ms. WONG Sau Ping (黃秀萍) (*ACIS, ACS*)

AUTHORISED REPRESENTATIVES

Mr. YIN Hang (尹航)
Ms. HUANG Junjun (黃鈞筠)

REGISTERED OFFICE

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STOCK CODE

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AUDITOR

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Corporate Information (Continued)

COMPLIANCE ADVISER

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Grand Millennium Plaza
181 Queen's Road Central
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LEGAL ADVISER

Stevenson, Wong & Co.
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28 Queen's Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
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HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
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PRINCIPAL BANKS

Bank of China Limited
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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

LISTING DATE

21 December 2015

Interim Results Highlights

- The revenue of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2016 was approximately RMB613.0 million (for the six months ended 30 June 2015: approximately RMB500.2 million), representing a growth of approximately 22.55% as compared with that for the same period last year.
- The gross profit of the Group for the six months ended 30 June 2016 was approximately RMB203.2 million (for the six months ended 30 June 2015: approximately RMB150.7 million), representing an increase of approximately 34.84% as compared with that for the same period last year.
- The profit for the period attributable to the owners of the Company during the six months ended 30 June 2016 was approximately RMB112.2 million (for the six months ended 30 June 2015: approximately RMB130.2 million), representing a decline of approximately 13.82% as compared with that for the same period last year.
- The basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2016 was approximately RMB0.11 (for the six months ended 30 June 2015: approximately RMB0.18).
- The board of directors of the Company (the “Board”) did not recommend the payment of interim dividends for the six months ended 30 June 2016 (for the six months ended 30 June 2015: approximately RMB147.4 million).

Management Discussion and Analysis

BUSINESS REVIEW

As a world-leading producer and supplier of fiberglass fabrics used in wind power, during the six months ended 30 June 2016 (the "Review Period"), with the joint efforts of the entire staff and management, the Group grasped the opportunities of the growth in the industry to proactively expand the market, adjust the structure of the market and products, and strengthen the operating capacity and internal control management, with a view to increasing the profit and saving the resources, as well as reducing the costs and boosting the efficiency. During the Review Period, various operation goals were progressing smoothly, a significant growth was achieved as compared with that for the same period last year, and business segments maintained a healthy development trend.

During the Review Period, the Company has achieved sales volume amounted to 55,229.8 tons, representing an increase of approximately 16.35% as compared with that for the same period last year, while achieved revenue of RMB613.0 million, representing a growth of approximately of 22.55% as compared with that for the same period last year, among which, approximately RMB543.0 million was the sales revenue of related products in the wind power industry, representing a growth of 25.49% as compared with that for the same period last year. The gross profit achieved was approximately RMB203.2 million, representing an increase of 34.84% as compared with that for the same period last year. The net profit was approximately RMB111.7 million, representing a decline of approximately 14.01% as compared with that for the same period last year. The net profit attributable to the owners of the Company was approximately RMB112.2 million, representing a decline of approximately 13.82% as compared with that for the same period last year. However, had the one-off and non-operating gain on release of financial guarantees contracts for the six months ended 30 June 2015 excluded, the Group's net profit attributable to the owners of the Company for the six months ended 30 June 2016 would have been increased by 58.56% as compared to that of the same period last year (please refer to the announcement on positive profit alert published by the Company on 3 August 2016).

The following table sets forth the sales revenue amounts of the Company by products:

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Multi-axial fabrics	409,442	366,265
Uni-direction fabrics	164,614	102,990
Woven roving combo mat	18,832	10,295
Stitched mat	2,915	1,898
E/PP compofil fabrics	17,228	18,730
Total	613,031	500,178

Management Discussion and Analysis (Continued)

The following table sets forth the sales revenue amounts of the Company by end-application fields:

	For the six months ended 30 June	
	2016 <i>RMB'000</i> (Unaudited)	2015 <i>RMB'000</i> (Audited)
Products specified in contracts for wind turbine blade sector	543,044	432,715
Other	69,987	67,463
Total	613,031	500,178

The following table sets out the sales revenue amounts of the Company by geographical locations:

	For the six months ended 30 June	
	2016 <i>RMB'000</i> (Unaudited)	2015 <i>RMB'000</i> (Audited)
Overseas markets		
Europe	189,459	131,933
North America	129,741	94,372
Asia (note a)	26,535	8,944
Latin America	16,635	1,617
Australia	183	104
PRC market (note b)	362,553	236,970
	250,478	263,208
Total	613,031	500,178

Notes:

- (a) Asia includes Hong Kong, Macau and Taiwan, but excludes the PRC.
- (b) PRC market excludes Hong Kong, Macau and Taiwan.

Management Discussion and Analysis (Continued)

REVIEWS ON PRINCIPAL ACTIVITIES

1. Production and sales

During the Review Period, the total production volume amounted to 59,809.5 tons, representing an increase of 21.67% as compared with that for the same period last year, whereas the sales volume amounted to 55,229.8 tons, representing an increase of 16.35% as compared with that for the same period last year. The revenue amounted to RMB613.0 million, representing an increase of 22.55% as compared with that for the same period last year, among which, our revenue generated from sales to wind turbine blade amounted to approximately RMB543.0 million, representing a growth of 25.49% as compared with that for the same period last year; gross profit amounted to approximately RMB203.2 million, representing an increase of approximately 34.84% as compared with that for the same period last year; net profit amounted to RMB111.7 million, representing a decline of approximately 14.01% as compared with that for the same period last year.

2. Sales and marketing

During the Review Period, there was a significant progress for the market development with a continuous increase of orders on hand.

Maintenance and development of customers

During the Review Period, new progress was achieved in respect of the maintenance of existing customers and the development of new customers: (i) further strengthening the cooperation relationship with existing customers and sub-new customers (the customers developed in 2015), and consolidating the market shares. During the Review Period, the sales volume of our top 8 wind power customers achieved a year-on-year two-digit growth; the sales volume from the sub-new customers in the first half of this year experienced drastic growth since their small purchase volume started last year; (ii) after realizing the bulk supply of products to LM Wind Power, an international renowned wind turbine manufacturer, 5 new overseas customers of wind power are now under development, to continuously increase international market shares and strengthen the position in international market; and (iii) successfully developed 3 new domestic customers of wind power, and gradually entering the stage of bulk supply, to continuously lay solid foundation for business growth.

Adjustment of market structure

During the Review Period, facing the market environment of continuous and steady growth of overseas wind power market, as well as the depreciating exchange rate of RMB, the management of the Company adjusted the market structure in a timely manner and increased its efforts on export, resulting in a significant increase in the sales volume and sales revenue in the overseas market, with the main performance: (i) a steady growth was achieved for the sales volume from the overseas key old customers than that of the same period last year; (ii) an explosive growth in respect of sales volume from sub-new customers was experienced; and (iii) a significant growth in respect of net growth of sales volume from newly developed customers, with strong subsequent sales volume.

Adjustment of product structure

The Company proactively responded to and guided the market towards the personalized and differential demands of all multi-purpose fiberglass fabrics, and adjusted the product structure in a timely manner: (i) continuously increasing the production and sales of high value-added products; and (ii) pursuing and extending the value chain of product and service, mainly reflecting in maintaining the rapid growth of the sales volume of customerized products.

Management Discussion and Analysis (Continued)

3. Operations management

Production and quality

During the Review Period, the Group advanced the working policies of “refining management with enhancing quality and increasing efficiency” to every aspect of its operation activities. On one hand, we solidify the foundation management and create high-efficient teams. On the other hand, we continuously enhanced the control during production processes, kept conducting technological reform and upgrade, to further increase operating efficiency and product quality, reduce wastes and eliminate low-efficiency processes, so as to uplift the works of “refining management with enhancing quality and increasing efficiency” to a new height. Under the Review Period, both qualification rate of products and production efficiency have continuously increased.

Organization structure

During the Review Period, the Company continued to optimize the departmental structure, and enhanced the organizational functionality: (i) adjusting and optimizing the function of research and development (“R&D”) and testing and verification management of new products, separating the skill and technology management from the product R&D department to establish a skills and technologies department, so as to transform the design, testing and verification of new products towards the direction of more professional and high-efficient; and (ii) further optimizing the customer service philosophy, which enhanced the customer after-sales function to customer technical support and service, so as to continuously increase customer satisfaction.

4. Technology and R&D

Technological innovation represents an enterprise’s driving force for development, and is one of the Group’s core competitive advantages. During the course of development for more than 10 years in the past, the Company follows the operations concept of “market-oriented and customers-centered”, to design, research and develop personalized new products for the customers, and satisfy the differential demand from customers of various niche markets through product upgrade and technological innovation.

During the Review Period, the technological and R&D results of the Company were significant: (i) Hengshi Fiberglass Inspection Centre (恒石纖維檢測中心) has obtained Laboratory Accreditation Certificate (國家實驗室認可資格) from China National Accreditation Service for Conformity Assessment (CNAS), which signifies that Hengshi Fiberglass Inspection Centre is entitled to use the accreditation logo of “CNAS” and international mutual accreditation joint logo of “ILAC-MRA/CNAS” in its inspection reports, and the inspection reports issued by it shall have the effect of international mutual recognition; and (ii) the Company continued to intensify the transformation from product process design to precise process design, to make the full transformation of the product process’s realizing and controlling towards further precision, and move towards quantification of valuation and inspection of products.

5. Projects investment

Egypt Phase II Expansion Plan: During the Review Period, Egypt Phase II project was initiated, and all preliminary preparation works were completed by the Company. Works including decoration of the plant, and the exports and installation of machinery and equipment will be continued to proceed in the second half of the year.

Hengshi Phase IV Expansion Plan: During the Review Period, Hengshi Phase IV project was initiated, and various works including project planning, proposal design, government approval, procurement of auxiliary facilities and construction of main plants were completed by the Company.

Management Discussion and Analysis (Continued)

FINANCIAL REVIEW

Revenue

During the Review Period, the revenue of the Group amounted to approximately RMB613.0 million, representing a growth of approximately RMB112.8 million or approximately 22.55% as compared with that for the same period last year. The increase of the revenue was mainly attributable to the fact that: (i) the Company proactively responded and explored the demand from customers and actively adjusted the product structure, to increase the proportion of high value-added products; (ii) the Company captured the favorable timing of the depreciation of RMB, and adjusted and increased the sales volume in the overseas market in a timely manner, such that the sales income in the overseas markets further increased; and (iii) the Company continued to strengthen the development of the market, resulting in a stable growth of sales volume from existing customers, and orders from sub-new and new customers grew rapidly.

Cost of sales

During the Review Period, cost of sales of the Group amounted to approximately RMB409.9 million, representing an increase of approximately RMB60.4 million or approximately 17.28% as compared with that for the same period last year. The increase in cost of sales was mainly attributable to the increase of the sales volume and then the corresponding costs increase including costs of raw materials, labor costs, costs of package materials and depreciation costs during the Review Period.

Gross profit and gross profit margin

During the Review Period, gross profit of the Group amounted to approximately RMB203.2 million, representing an increase of approximately RMB52.5 million or 34.84% as compared with that for the same period last year. Our gross profit margin was 33.15% (30 June 2015: 30.13%). The growth on our gross profit and gross profit margin was mainly attributable to the fact that: (i) the scaling effect was further realized as the production and scale of the Company continued to increase; (ii) the sales proportion of sales volume of high value-added products increased; and (iii) the increase of sales volume in overseas markets, and RMB continued to depreciate.

Other income

During the Review Period, other income of the Group amounted to approximately RMB16.8 million, representing an increase of approximately RMB10.3 million or approximately 158.46% as compared with that for the same period last year. It was owing to the fact that the Company obtained a government subsidy of approximately RMB10.6 million during the Review Period (30 June 2015: approximately RMB0.2 million).

Other gains and losses

During the Review Period, other gains of the Group amounted to approximately RMB1.1 million, representing a decrease of approximately RMB63.8 million or approximately 98.31% as compared with that for the same period last year. It was owing to the fact that the Company obtained a gain of approximately RMB65.3 million from the release of financial guarantee for the same period last year, and the Company did not obtain such gain during the Review Period.

Selling and distribution expenses

During the Review Period, selling and distribution expenses of the Group amounted to approximately RMB36.5 million, representing an increase of approximately RMB5.6 million or 18.12% as compared with that for the same period last year. The selling and distribution expenses accounted for 5.95% of the total sales income percentage (30 June 2015: 6.18%). The selling and distribution expenses as a percentage of total sales income decreased by 0.22% as compared to that of the same period last year.

Management Discussion and Analysis (Continued)

Administrative expenses

During the Review Period, total administrative expenses of the Group amounted to approximately RMB22.9 million, representing an increase of approximately RMB9.5 million or approximately 70.90% as compared with that for the same period last year. The increase in administrative expenses was mainly attributable to (i) an increase in the average remuneration of executives as compared with that for the same period last year; and (ii) as Hengshi Egypt Fiberglass Fabrics S.A.E (“Hengshi Egypt”) commenced operations, expenses such as product verification fees had a significant increase as compared with that for the same period last year, which was due to the fact that the administrative expenses were relatively less as Hengshi Egypt was under preparation and construction stage during the same period last year.

Research expenditure

During the Review Period, total research expenditure of the Group amounted to approximately RMB18.6 million, representing an increase of approximately RMB3.0 million or approximately 19.23% as compared with that of the same period last year, accounting for 3.03% of our revenue (30 June 2015: approximately 3.12%). The increase in research expenditure during the Review Period was mainly attributable to the increase in the consumption of relevant raw materials, product verification fees and the number of research staff due to proactive research activities in 2016 in order to develop new customers of wind turbine blades and satisfy new requirements of new technological specifications of customers.

Finance costs

During the Review Period, finance costs of the Group amounted to approximately RMB4.2 million, representing a decrease of approximately RMB6.5 million as compared with that for the same period last year, mainly due to decreasing interests of bank borrowings and decreasing average balance of bank borrowings.

Profit attributable to the owners of the Company

For the six months ended 30 June 2016, the profit for the period attributable to the owners of the Company amounted to approximately RMB112.2 million (six months ended 30 June 2015: approximately RMB130.2 million), representing a decline of approximately 13.82% as compared with that for the same period last year. However, had the one-off and non-recurring gain on release of financial guarantees contracts for the six months ended 30 June 2015 excluded, the profit for the period attributable to the owners of the Company for the six months ended 30 June 2016 would have been increased by 58.56% as compared to that of the same period last year.

Source of liquidity and finance

As at 30 June 2016, the Group’s non-current assets amounted to approximately RMB646.8 million (31 December 2015: RMB589.0 million). As at 30 June 2016, the Group’s current assets amounted to approximately RMB996.7 million (31 December 2015: RMB1,100.7 million), including the bank balances and cash of approximately RMB131.7 million as at 30 June 2016 (31 December 2015: RMB502.4 million). As at 30 June 2016, the Group’s non-current liabilities and current liabilities amounted to approximately RMB5.5 million and RMB530.6 million (31 December 2015: RMB4.9 million and RMB633.2 million), including the payables and bank borrowings incurred in the normal course of business.

The Group primarily used the cash flow generated internally and bank borrowings as the sources of working capital. The directors of the Company (the “Directors”) believe that the Group has sufficient funding to support the required working capital and the capital expenses for the foreseeable future.

Management Discussion and Analysis (Continued)

Gearing Ratio

As at 30 June 2016, the Group's gearing ratio (calculated as the total borrowings divided by total assets multiplied by 100%) was approximately 9.74% (31 December 2015: approximately 23.67%).

Foreign Currency Risks

Exchange risks are mainly attributable to the Group's bank borrowings, sales and purchase, and the receivables, payables, cash balance and loans valued in currencies other than RMB. We generate exchange rate risks against US dollars, Euros, HK dollars and Egyptian pounds. The Directors and management of the Company continued to monitor relevant exchange rate risks, and adopt appropriate currency hedging policies in a timely manner.

Capital Commitments and Contingent Liabilities

As at 30 June 2016, the aggregate capital commitments of the Group amounted to approximately RMB23.2 million (31 December 2015: RMB75.0 million), mainly attributable to the payments payable to the contractor in relation to the civil works construction of plant of Hengshi Phase IV Expansion Plan. As at 30 June 2016, the Group did not have any material contingent liabilities.

Borrowings and Pledge of Assets

As at 30 June 2016, the bank borrowings of the Group amounted to approximately RMB160.0 million, of which, RMB130.0 million and RMB30.0 million carried interests at a floating market rate of 4.35% and a fixed market rate of 4.35%, respectively (31 December 2015: RMB220.0 million and RMB180.0 million carried interests at a floating market rate of 4.60% and a fixed market rate of 4.60%, respectively), shall be repayable in full within one year. The proceeds raised during the Review Period shall be used as the general working capital.

As at 30 June 2016, certain properties and plants of the Company (carry value of approximately RMB112.3 million) were pledged to banks to secure the above bank borrowings (31 December 2015: approximately RMB98.2 million).

Material Acquisitions and Disposals

During the Review Period, the Group did not have any material acquisitions and disposals of subsidiaries or affiliated companies.

Employees and Remuneration Policies

As at 30 June 2016, the Group had 1,023 employees in total (30 June 2015: 1,167 employees). The decrease in the number of employees was mainly due to the fact that the Group improved the employees appraisal system during the Review Period, which enhanced the merit and demerit assessment to streamline part of the staff of production workshops. The remuneration policy for the employees of the Group was devised by the Board based on each employee's experience, qualification and capability. The Group also provided employee benefits, including provident fund, endowment insurance, unemployment insurance, maternity insurance and employment injury insurance, in accordance with applicable Chinese laws and regulations.

Management Discussion and Analysis (*Continued*)

EVENTS AFTER THE REVIEW PERIOD

Connected Transactions

On 4 July 2016, Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. (“Hengshi Fiberglass”) (a wholly-owned subsidiary of the Company), (i) shall make a capital contribution of US\$3 million (equivalent to approximately RMB19.94 million) to Hengshi Egypt (“Capital Increase”); and (ii) entered into the loan agreement (“Loan Agreement”) with Hengshi Egypt, pursuant to which Hengshi Fiberglass shall provide a loan of US\$7.25 million (equivalent to approximately RMB48.19 million) to Hengshi Egypt. All the capital will be used in the Egypt Phase II Expansion Plan.

Hengshi Egypt is a non-wholly-owned subsidiary of the Company. Mr. Zhang Yuqiang (a non-executive Director and controlling shareholder of the Company) owned as to 70.28% of Zhenshi Holding Group Co., Ltd. (“Zhenshi Group”). Zhenshi Group Huamei New Materials Co., Ltd. (“Huamei”) and Zhejiang Huajun Investment Co., Ltd. (“Huajun Investment”) are both subsidiaries of Zhenshi Group, and each in turn holds 5% equity interests in Hengshi Egypt. Accordingly, Mr. Zhang Yuqiang, through Zhenshi Group, Huamei and Huajun Investment, could exercise or control the exercise of 10% of the voting power at Hengshi Egypt’s general meetings. Hengshi Egypt is therefore a connected subsidiary and thus a connected person of the Company pursuant to Rule 14A.16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Accordingly, the transactions contemplated under the Capital Increase and the Loan Agreement constitute connected transactions of the Company under the Listing Rules.

As all the applicable percentage ratios of the transactions are greater than 0.1% but less than 5%, the transactions contemplated under the Capital Increase and the Loan Agreement are subject to the reporting and announcement requirements but exempt from the circular (including independent financial advice) and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

For details of the above connected transactions, please refer to the announcement published on 4 July 2016 by the Company.

Management Discussion and Analysis (Continued)

BUSINESS OUTLOOK

1. Overall trend of the development of the industry

Significantly developing renewable energy is an important approach to adjust energy mix, tackle air pollution, reduce haze and prevent global warming. Countries around the world, including the PRC, have been sparing no efforts to drive the development of renewable energy in terms of policy, tax and finance areas.

According to the “Energy Development Strategic Action Plan” (《能源發展戰略行動計劃》) issued by the State Council, in order to boost the proportion of renewable energy in energy production and consumption, the ratio of non-fossil fuels to primary energy consumption shall reach 15% by the end of the 13th Five-year Plan period, enabling renewables including wind power to transit from complementary energy to alternative energy.

According to the Report on “China Energy Outlook 2030” (《中國能源展望2030》) published by China Energy Research Society, influenced by both institutional and technological factors, 250 million kilowatt of wind power is expected to be achieved by 2020, accounting for 12.5% of the total installed capacity; and by 2030, the accumulated installed capacity of wind power will reach 450 million kilowatt, with approximately 900 billion kilowatt-hours of grid electricity.

As pointed out in the Report on “Wind Energy 2050: A Gradual Achievement of 100% Renewable Energy for Power Supply” (《風能2050：逐步實現100%可再生能源報告供電》) published by World Wind Energy Association, wind power has gradually become the mainstream energy. Wind energy is expected to account for 40% when the world achieves a gradual 100% renewable energy of power supply by 2050.

As the biggest energy producer and consumer, China has seen its difficulty in accommodating the current situation with its traditional model of energy production and consumption. In recent years, the Chinese government has been making strenuous efforts to address such issues as electricity consumption and price subsidy. As a result, the technology level of wind power generation has been improving. Coupled with the fact that the financial environment has relatively become loose, it is expected that there will still be much room for development in the future.

2. Development strategies

Striving to be a leading enterprise of fiberglass fabrics used in wind turbine blades, which is now facing the unprecedented opportunities of new energy resources development, the Company will capitalize on our leading position in the industry, and continue to consolidate the business advantages in respect of the R&D, manufacturing, sales and services of fiberglass fabrics used in wind turbine blades, while speeding up the R&D and production of fiberglass fabrics used in blades of high mega-watts, which have potential development values. As always, we insist on following the international development direction path, further achieving the internationalization of our technology, talents and capital, so as to contribute to the development of new energy industry, and bring more solid returns to our shareholders.

Management Discussion and Analysis (Continued)

3. Operating plans and main targets

Looking ahead of the second half of 2016, the overseas market will maintain its stable growth. For the domestic market, the growth will experience a year-on-year slow-down. However, the trend of increase will not change as a whole in a long-run. Affected by the seasonality of the industry, the overall domestic market performance in the second half of 2016 will be better than that in the first half of 2016. To strive to achieve the profit target determined in our annual budget of 2016, we have worked out the overall business mind-map and initiatives for the second half of 2016 as follows:

(1) Sales and marketing

In the second half of 2016, it is necessary to distinguish both the domestic and overseas markets, given their different situations, focusing on the adjustment of product restructure and market development.

Overseas market: continuing to aim at expanding the overseas market and maintaining customer relations, as well as facilitating the steady growth of total exports, stabilizing customer relations, and further enhancing customer confidence. Efforts should also be made to advance the layout of the international supply chain, striving to make the full realization of “overseas plant for overseas market” by Hengshi Egypt, and enhance the protection on supply for overseas customers.

Domestic market: continuing to further adjust product structure and the market development efforts, proactively promote high modulus products, expedite the testing and certification for new customers, expand the sales proportion for high value-added products.

(2) Testing and certification of new customers and products

Further optimizing the product testing capability and level of the Company, promote the certification for domestic and overseas customers in an orderly manner, speed up the bulk supply progress for the customers who has passed the testing and certification.

(3) Management of skills and techniques

Frontline staff are guided to participate the projects of skills and technical renovation and enhancement, foster the standardized and systematic management ability in skills and techniques of the frontline production staff, effectively enhance the targetability, effectiveness and standardization in the management of skills and techniques, optimize the Company’s management system of skills and techniques, and further enhance the technical support and service capability for customers.

Management Discussion and Analysis (*Continued*)

(4) Quality Control

Continuing to enhance product quality management: (i) we have continued to instil quality awareness among all managers and staff, and recognized that product quality is crucial to the Company's well-being, sustainability, and long-term development; (ii) we insisted on implementing processing quality control focused on production. Product quality was ensured through the qualified and stable production process; and (iii) we established an assessment mechanism focused on accountability, to set up a multi-goal management mechanism which puts quality a priority.

(5) Project Constructions

Egypt Phase II Expansion Plan: selection and purchase of equipment was completed in July 2016, the civil works and design, tendering and procurement of accessory equipment for Egypt Phase II Expansion Plan will commence. We strive to fulfill the requirements of the completion of the construction of Egypt Phase II Expansion Plan within this year, and to ensure the full operations of Egypt Phase II Expansion Plan in the first quarter in 2017.

Hengshi Phase IV Expansion Plan: The civil works and construction for plants is expected to be completed by the contractor by the end of August 2016. Subsequently, the Company will commence the procurement and installation and testing for the equipment as scheduled. After trial production, sampling and verification for products will be conducted gradually.

Corporate Governance/Other Information

CORPORATE GOVERNANCE CODE

The Group has strived to maintain high standards of corporate governance in order to safeguard the interests of our shareholders and enhance the corporate value and accountability. The Company has adopted the principles of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. For the six months ended 30 June 2016, the Company has complied with the code provisions as set out in the CG Code. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the CG Code.

MODEL CODE REGARDING SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Code of Conduct (the “Model Code”) regarding transactions conducted by Directors. After making specific enquires to all Directors, all of them have confirmed that they have complied with the requirements set out in the Model Code for the six months ended 30 June 2016.

INTERIM DIVIDEND

The Board did not recommend the distribution of any interim dividend for the period of six months ended 30 June 2016 (six months ended 30 June 2015: approximately RMB147.4 million).

REVIEW OF AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) comprised two independent non-executive Directors, namely, Mr. Fang Xianbai (Chairman of the Audit Committee) and Mr. Pan Fei, and one non-executive Director, namely Mr. Wang Yuan.

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The major responsibilities of the Audit Committee include reviewing and monitoring the Group’s financial controls, risk management and internal control systems and procedures, reviewing the Group’s financial information and reviewing the relationship with external auditors of the Company. The unaudited consolidated interim financial statements, the interim results announcement and the Interim Report of the Group for the six months ended 30 June 2016 have been reviewed by the Audit Committee. The condensed consolidated financial statements have been reviewed by “Deloitte Touche Tohmatsu”, the auditor of the Company.

CHANGES OF THE INFORMATION OF DIRECTORS

There have been no changes of the information of Directors that shall be disclosed in accordance with the Rule 13.51B(1) of the Listing Rules since the 2015 Annual Report was published.

PURCHASE, SALES OR REDEMPTION OF COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company for the six months ended 30 June 2016.

Corporate Governance/Other Information (Continued)

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The Company made a public offering of 250,000,000 ordinary shares by listing on the Stock Exchange. The gross proceeds amounted to approximately Hong Kong Dollar 537.5 million, equivalent to approximately RMB457.6 million (calculated based on the actual conversion price of Hong Kong Dollar to RMB as provided by the bank as at the date of conversion). After the deduction of the listing expense of approximately RMB57.2 million, the net proceeds from the listing received by the Company amounted to approximately RMB400.4 million. Those proceeds have been utilized in accordance with the manners as set out in the section headed “Future plans and use of proceeds” in the prospectus of the Company dated 8 December 2015.

The table below sets out the use of the proceeds from the initial public offering:

Use	Net proceeds from the initial public offering <i>(RMB'million)</i>	Utilized as at 30 June 2016 <i>(RMB'million)</i>	Balance unutilized as at 30 June 2016 <i>(RMB'million)</i>
Hengshi Phase IV Expansion Plan	180.2	9.6	170.6
Among which: Acquisition of land use rights <i>(note)</i>	24.0	0.0	24.0
Construction of production facilities	57.0	8.9	48.1
Purchase of manufacturing equipment and ancillary equipment	99.2	0.7	98.5
Repayment of bank loans	120.1	120.1	0.0
Purchase of property	60.1	60.1	0.0
Working capital	40.0	40.0	0.0
Total	400.4	229.8	170.6

Note: As disclosed in the section headed “Future plans and use of proceeds” in the prospectus of the Company, it was expected that the expenditure for the acquisition of land use rights under the expansion plan of Hengshi Phase IV amounted to approximately RMB24.0 million. However, owing to the tight supply of industrial land by the government, Hengshi Fiberglass failed to acquire the corresponding land use rights from the local government. After discussion of the management of the Company it was resolved that the vacant area in the existing plants at Hengshi Fiberglass shall be surrendered and used for construction of plants under the expansion plan of Hengshi Phase IV. The unutilized amount for the acquisition of the land use rights amounted to approximately RMB24.0 million remains to be used for the expansion plan under Hengshi Phase IV, for the acquisition of additional manufacturing equipment and ancillary equipment to further expand the existing production capacity.

Corporate Governance/Other Information (Continued)

Interests and Short Positions of Directors and Chief Executives in Shares, Underlying Shares and Debentures

As at 30 June 2016, interests or short positions held by Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register maintained pursuant to the section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

(i) Interests in the Company

Director	Nature of interests	Number of shares held ⁽⁴⁾	Approximate percentage of shareholding ⁽⁵⁾
Zhang Yuqiang ⁽¹⁾	Interest of a controlled corporation	329,602,500 (L)	32.96%
Zhang Jiankan ⁽²⁾	Interest of a controlled corporation	120,397,500 (L)	12.04%
Tang Hsin-hua ⁽³⁾	Interest of a controlled corporation	225,000,000 (L)	22.50%

Notes:

- (1) Mr. Zhang Yuqiang directly held 95.95% of the issued share capital of Huachen Investment Limited, and was deemed to be interested in the 329,602,500 shares of the Company held by Huachen Investment Limited under the SFO.
- (2) Mr. Zhang Jiankan directly held all the issued share capital of Huakai Investment Limited, and was deemed to be interested in the 120,397,500 shares of the Company held by Huakai Investment Limited under the SFO.
- (3) Mr. Tang Hsin-hua indirectly held all the issued share capital of Trade Power Investments Limited through all the direct interests held by him in Soar City Investments Limited, and was deemed to be interested in the 225,000,000 shares of the Company held by Trade Power Investments Limited under SFO.
- (4) The letter (L) denotes the long position in such securities.
- (5) As at 30 June 2016, the number of issued share capital of the Company amounted to 1,000,000,000 shares.

(ii) Interests in associated corporations

None of the Directors or chief executives of the Company has any interests or short positions in the shares, underlying shares or debentures of any associated corporations of the Company.

Corporate Governance/Other Information (Continued)

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 30 June 2016, so far as the Directors are aware, the following persons (not being a Director or chief executive of the Company) who had or were deemed to have the interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Nature of Interests	Number of shares ⁽⁵⁾	Approximate percentage of shareholding ⁽⁶⁾
Fang Yan Zau Alexander ⁽¹⁾	Interest of a controlled corporation	75,000,000 (L)	7.50%
Huachen Investment Limited ⁽²⁾	Beneficial owner	329,602,500 (L)	32.96%
Huakai Investment Limited ⁽³⁾	Beneficial owner	120,397,500 (L)	12.04%
Soar City Investments Limited ⁽⁴⁾	Interest of a controlled corporation	225,000,000 (L)	22.50%
Trade Power Investments Limited ⁽⁴⁾	Beneficial owner	225,000,000 (L)	22.50%
Top Way Alliance Limited ⁽¹⁾	Interest of a controlled corporation	75,000,000 (L)	7.50%
Joyfar Limited ⁽¹⁾	Beneficial owner	75,000,000 (L)	7.50%

Notes:

- (1) Top Way Alliance Limited directly held all the issued share capital of Joyfar Limited, and was deemed to be interested in the 75,000,000 shares of the Company held by Joyfar Limited. Mr. Fang Yan Zau Alexander indirectly held all the issued share capital of Joyfar Limited through all direct interests held by him in Top Way Alliance Limited, and Mr. Fang Yan Zau Alexander was deemed to be interested in the 75,000,000 shares of the Company held by Joyfar Limited under the SFO.
- (2) Huachen Investment Limited directly held 329,602,500 shares of the Company, while Mr. Zhang Yuqiang directly held 95.95% of the issued share capital of Huachen Investment Limited, and Mr. Zhang Yuqiang was deemed to be interested in the 329,602,500 shares of the Company held by Huachen Investment Limited under the SFO.
- (3) Huakai Investment Limited directly held 120,397,500 shares of the Company, while Mr. Zhang Jiankan directly held all the issued share capital of Huakai Investment Limited, and Mr. Zhang Jiankan was deemed to be interested in the 120,397,500 shares of the Company held by Huakai Investment Limited under the SFO.
- (4) Soar City Investments Limited directly held all the issued share capital of Trade Power Investments Limited, and was deemed to be interested in the 225,000,000 shares of the Company held by Trade Power Investments Limited. Mr. Tang Hsin-hua indirectly held all the issued share capital of Trade Power Investments Limited through all direct interests held by him in Soar City Investments Limited, and Mr. Tang Hsin-hua was deemed to be interested in the 225,000,000 shares held by Trade Power Investments Limited under the SFO.
- (5) The letter (L) denotes the long position in such securities.
- (6) As at 30 June 2016, the number of issued share capital of the Company amounted to 1,000,000,000 shares.

As at 30 June 2016, save as disclosed above, so far as the Directors are aware, no other party (not being a Director or chief executive of the Company) who had or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or to be recorded in the register maintained pursuant to Section 336 of the SFO.

Report on Review of Condensed Consolidated Financial Statements



TO THE BOARD OF DIRECTORS OF CHINA HENGSHI FOUNDATION COMPANY LIMITED

中國恒石基業有限公司

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 22 to 50, which comprise the condensed consolidated statement of financial position as at 30 June 2016, and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for 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 International 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 August 2016

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	NOTES	For the six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Revenue	4	613,031	500,178
Cost of sales		(409,853)	(349,507)
Gross profit		203,178	150,671
Other income	5	16,752	6,518
Other gains and losses	6	1,107	64,940
Selling and distribution expenses		(36,511)	(30,885)
Administrative expenses		(22,856)	(13,420)
Research expenditure		(18,615)	(15,574)
Other expenses		(196)	(8,726)
Finance costs		(4,207)	(10,727)
Profit before tax	7	138,652	142,797
Income tax expense	8	(26,938)	(12,906)
Profit for the period		111,714	129,891
Other comprehensive expense			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translating foreign operation		(1,299)	(1,222)
Total comprehensive income for the period		110,415	128,669
Profit (loss) for the period attributable to:			
Owners of the Company		112,200	130,160
Non-controlling interests		(486)	(269)
		111,714	129,891
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		111,035	129,060
Non-controlling interests		(620)	(391)
		110,415	128,669
Earnings per share – basic (RMB)	10	0.11	0.18

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	NOTES	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	532,973	547,123
Prepaid lease payments	12	30,421	30,809
Deferred tax assets		13,430	10,406
Deposits paid for acquisition of property, plant and equipment	13	70,024	688
		646,848	589,026
CURRENT ASSETS			
Inventories		125,824	96,697
Prepaid lease payments		776	776
Trade and other receivables	14	406,466	354,859
Bills receivables	14	64,628	15,530
Amounts due from other related parties	14	19,650	21,623
Restricted bank deposits		247,708	108,834
Bank balances and cash		131,676	502,428
		996,728	1,100,747
CURRENT LIABILITIES			
Trade and other payables	15	40,656	47,030
Bills payables	15	243,525	168,509
Amounts due to other related parties	15	73,615	15,955
Amounts due to a shareholder		7	–
Financial liabilities at fair value through profit or loss (“FVTPL”)		3,584	1,000
Tax payable		8,912	455
Bank borrowings	16	160,000	400,000
Deferred revenue		300	300
		530,599	633,249
NET CURRENT ASSETS		466,129	467,498
TOTAL ASSETS LESS CURRENT LIABILITIES		1,112,977	1,056,524

Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2016

	NOTES	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		3,117	2,336
Deferred revenue		2,400	2,550
		5,517	4,886
NET ASSETS			
		1,107,460	1,051,638
CAPITAL AND RESERVES			
Share capital	17	6,207	6,207
Reserves		1,100,327	1,043,885
Equity attributable to owners of the Company		1,106,534	1,050,092
Non-controlling interests		926	1,546
TOTAL EQUITY		1,107,460	1,051,638

The condensed consolidated financial statements on pages 22 to 50 were approved and authorised for issue by the board of directors of the Company on 23 August 2016 and are signed on its behalf by:

Mr. ZHANG Yuqiang
Director

Mr. ZHANG Jiankan
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Share Capital RMB'000	Share Premium RMB'000	Statutory Reserve Surplus RMB'000 (note a)	Other Reserve RMB'000 (note b)	Retained Profits RMB'000	Proposed Final Dividend RMB'000	Translation Reserve RMB'000	Sub-total RMB'000	Non- controlling Interests RMB'000	Total RMB'000
At 1 January 2015 (Audited)	455,434	-	26,528	-	65,923	-	(61)	547,824	2,085	549,909
Profit (loss) 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 (expense) for the period	-	-	-	-	130,160	-	(1,100)	129,060	(391)	128,669
Appropriation to statutory reserve	-	-	16,376	-	(16,376)	-	-	-	-	-
Dividends declared (note 9)	-	-	-	-	(147,381)	-	-	(147,381)	-	(147,381)
Capital injection	47,144	-	-	-	-	-	-	47,144	-	47,144
Capital contribution (note b)	-	-	-	607,109	-	-	-	607,109	-	607,109
Group reorganisation (note b)	(502,577)	-	-	(104,532)	-	-	-	(607,109)	-	(607,109)
At 30 June 2015 (Audited)	1	-	42,904	502,577	32,326	-	(1,161)	576,647	1,694	578,341
At 1 January 2016 (Audited)	6,207	1,021,918	51,557	(104,532)	20,897	54,593	(548)	1,050,092	1,546	1,051,638
Profit (loss) for the period	-	-	-	-	112,200	-	-	112,200	(486)	111,714
Other comprehensive expense for the period	-	-	-	-	-	-	(1,165)	(1,165)	(134)	(1,299)
Total comprehensive income (expense) for the period	-	-	-	-	112,200	-	(1,165)	111,035	(620)	110,415
Payment of 2015 final dividends	-	-	-	-	-	(54,593)	-	(54,593)	-	(54,593)
At 30 June 2016 (Unaudited)	6,207	1,021,918	51,557	(104,532)	133,097	-	(1,713)	1,106,534	926	1,107,460

Notes:

- (a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (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 the 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) The other reserve as at 30 June 2016 represented the net effect of the following:
- Capital contribution arising from the amounts of RMB607,109,000 was contributed by the shareholders of the Company in April 2015 as to facilitate the acquisition of 浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) ("Hengshi Fiberglass") from its then shareholders as part of the group reorganisation;
 - 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 as a part of group reorganisation; and
 - The issuance of new ordinary shares in August 2015 of RMB607,109,000 credited from other reserve to share capital and share premium as fully paid.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	NOTES	For the six months ended 30 June	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
NET CASH FROM OPERATING ACTIVITIES		144,862	106,436
Cash flows from investing activities			
Purchase of property, plant and equipment		(11,975)	(94,851)
Deposits paid for acquisition of property, plant and equipment		(70,024)	(10,201)
Cash received in respect of the Net Gain under the Compensation Agreement (as defined in note 12)		1,045	–
Interest received from bank deposits		3,466	635
Interest received from a shareholder		–	2,901
Advance to other related parties		–	(509)
Advance to a shareholder		–	(170,700)
Repayment from a shareholder		–	370,700
Placement of pledged bank deposits		(449,145)	(162,278)
Withdrawal of pledged bank deposits		310,271	61,323
NET CASH USED IN INVESTING ACTIVITIES		(216,362)	(2,980)
Cash flow from financing activities			
New bank borrowings raised		180,000	531,150
Repayment of bank borrowings		(420,000)	(515,370)
Interest paid		(4,718)	(11,533)
Dividend paid		(54,593)	(100,238)
Advance from shareholders		7	509
Consideration paid for acquisition of Hengshi Fiberglass under common control accounted for as deemed distribution		–	(607,109)
Capital contribution		–	607,109
Share issue expenses paid		(977)	–
NET CASH USED IN FINANCING ACTIVITIES		(300,281)	(95,482)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(371,781)	7,974
Cash and cash equivalents at the beginning of the period		502,428	61,741
Effect of foreign exchange rate changes		1,029	82
Cash and cash equivalents at the end of the period, represented by bank balances and cash		131,676	69,797

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

1. GENERAL

China Hengshi Foundation Company Limited (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 Company’s immediate and ultimate holding company is Huachen Investment Limited (“Huachen Investment”), a company incorporated in British Virgin Islands (“BVI”), 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 issued a prospectus dated 8 December 2015 in relation to its Global Offering of the Company’s shares (“Global Offering”). Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 21 December 2015.

The Company acts as an investment holding company. The principle activities of the Group are design, manufacture and sale of fiberglass fabrics.

The condensed consolidated financial statements are presented in Renminbi (“RMB”), which is also the functional currency of the Company.

2. BASIS OF PREPARATION

On 23 February 2015, one subscriber share was issued and then transferred to 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. 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

2. BASIS OF PREPARATION (Continued)

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.

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 consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the six months ended 30 June 2015 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 periods or since their respective dates of incorporation or establishment where there is a shorter period.

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board (the "IASB") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle

The application of the above amendments to IFRSs in the current interim period has no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION AND REVENUE

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 condensed consolidated financial statements 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.

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.

	30/06/2016 RMB’000 (Unaudited)	31/12/2015 <i>RMB’000</i> (Audited)
The PRC	606,206	547,865
Other	27,212	30,755
Total	633,418	578,620

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

4. SEGMENT INFORMATION AND REVENUE (Continued)

Entity-wide disclosures

Revenue from major products

The following is an analysis of revenue from its major products during the period:

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Multi-axial fabrics	409,442	366,265
Uni-direction fabrics	164,614	102,990
Woven roving combo mat	18,832	10,295
Stitched mat	2,915	1,898
E/PP compofil fabrics	17,228	18,730
Total	613,031	500,178

The following is an analysis of revenue by products based on contract terms during the period:

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Products specified in contracts for wind turbine blade sector	543,044	432,715
Other	69,987	67,463
Total	613,031	500,178

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

4. SEGMENT INFORMATION AND REVENUE (Continued)

Entity-wide disclosures (Continued)

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 period.

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Overseas markets		
Europe	189,459	131,933
North America	129,741	94,372
Asia (note a)	26,535	8,944
Latin America	16,635	1,617
Australia	183	104
	362,553	236,970
PRC market (note b)	250,478	263,208
Total	613,031	500,178

Notes:

- (a) Asia includes Hong Kong, Macau and Taiwan, but excludes the PRC.
- (b) PRC market excludes Hong Kong, Macau and Taiwan.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

5. OTHER INCOME

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Bank interest income	3,466	635
Interest income from a shareholder (note a)	–	2,901
Government grants (note b)	10,550	174
Scrap sales	2,316	2,656
Rental income (note c)	–	147
Sundry income	420	5
	16,752	6,518

Notes:

- (a) Details of interest income from a shareholder were set out in note 20.
- (b) The government grants represented the unconditional incentive of RMB10,400,000 (six months ended 30 June 2015: RMB174,000) received from the local government by Hengshi Fiberglass. RMB400,000 (six months ended 30 June 2015: RMB174,000) of which was received as the incentive for business development in the PRC, while the remaining RMB10,000,000 (six months ended 30 June 2015: nil) was received as a subsidy for the cost incurred in respect of the completion of listing the Company's shares on the Stock Exchange. The amount also included subsidiary on acquisition of manufacturing equipment of RMB150,000 (six months ended 30 June 2015: nil) amortised to other income in this period.
- (c) Rental income for the six months ended 30 June 2015 referred to the lease arrangement of certain buildings entered into with 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"), which is a related party of the Group, in 2015 which was early terminated in October 2015 and the Group no longer earned rental income since then.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

6. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
(Loss) gain on financial instruments at FVTPL	(3,201)	7,520
Allowance for doubtful debts	(5,696)	(8,139)
Reversal of allowance for doubtful debts	2,560	–
Net gain received in respect of the prepaid lease payment previously transferred under the Compensation Agreement (as defined in note 12)	1,045	–
Loss on disposal of property, plant and equipment	(47)	–
Gain on release of financial guarantee contracts (note)	–	65,300
Foreign exchange gain, net	6,446	259
	1,107	64,940

Note:

The amounts represented the adjustment in relation to the financial guarantee contracts in favour of banks provided by the Group to 振石控股集團有限公司 (Zhenshi Holding Group Co., Ltd.) (“Zhenshi Group”), which is a related party of the Group, and its other related party, 桐鄉市中鑫實業有限公司 (Tongxiang Zhongxin Industrial Co., Ltd), an entity controlled by the close family member of Mr. Zhang Jiankan, 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 2015.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

7. PROFIT BEFORE TAX

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Profit before tax has been arrived at after charging (crediting) the following items:		
Total staff costs (including directors' remuneration, other staff cost, and other staff's retirement benefit contribution)	49,934	40,654
Release of prepaid lease payments	388	388
Depreciation of property, plant and equipment	32,138	24,078
Total depreciation and amortisation	32,526	24,466
Allowance for write-downs of inventories (recognised in cost of sales)	2,281	214
Cost of inventories recognised as expenses	409,853	349,507

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Current tax		
Enterprise Income Tax (the "EIT") in the PRC	29,804	12,436
(Over) under provision in prior years in the PRC	(397)	405
Deferred tax (credit) charge	29,407 (2,469)	12,841 65
	26,938	12,906

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

8. INCOME TAX EXPENSE (Continued)

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%.

Provision for the PRC EIT for the 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.

Hengshi Fiberglass obtained the qualification of "High and New Technology Enterprise" that entitles it a preferential tax rate of 15% from the years 2015 to 2017 according to PRC Tax law.

Under the relevant tax law and implementation regulations in the PRC, withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiary to offshore group entity in respect of the undistributed profits attributable to the Group as earned by the Group's PRC subsidiary from 1 January 2008 onwards shall be subject to the withholding tax at 10% or a lower treaty rate. Withholding tax has been provided for based on the anticipated dividends to be distributed by the PRC entity.

No provision for taxation in Hong Kong has been made as the Group's income neither arises in nor is derived from Hong Kong.

Certain subsidiaries are located in United States of America and Egypt, of which corporate tax are calculated at the rates prevailing in the relevant jurisdictions. No provision for taxation was made for these entities as they had no assessable profits in both periods presented.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

9. DIVIDENDS

The board of directors of the Company (the 'Board') does not recommend the payment of interim dividend (six months ended 30 June 2015: RMB147,381,000) for the current interim period.

During the year ended 31 December 2015, the Company had proposed final dividends of HK\$0.0652 (equivalent to RMB0.0546) per share, totalling HK\$65,187,000 (equivalent to RMB54,593,000), which had been approved by the Company's shareholders in the annual general meeting held on 17 May 2016 and paid during the current interim period.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the period is based on the following data:

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	112,200	130,160
Number of ordinary shares (six months ended 30 June 2015: weighted average number of ordinary shares) for the purpose of calculating basic earnings per share	1,000,000,000	718,127,866

The weighted average number of ordinary shares for the purpose of basic earnings per share for the six months ended 30 June 2015 was calculated based on the assumption that the current group structure has been in existence and remained unchanged for the period or since their respective dates of incorporation or establishment unless there is a shorter period, take into consideration the 749,900,000 new ordinary shares issued on 17 August 2015 due to capitalisation issue.

No diluted earnings per share is presented for both periods as there was no potential ordinary share in issue.

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property and equipment with an aggregate carrying amount of RMB47,000 at nil consideration, resulting in a loss on disposal of RMB47,000. No such disposal had been incurred during the six months ended 30 June 2015.

In addition, during the current interim period, the Group acquired property, plant and equipment (including capital expenditure for construction in progress) of RMB21,097,000 (six months ended 30 June 2015: RMB71,825,000) in order to upgrade its manufacturing capabilities.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

11. PROPERTY, PLANT AND EQUIPMENT (Continued)

No impairment loss (six months ended 30 June 2015: nil) was recognised during the current interim period.

12. PREPAID LEASE PAYMENTS

Amortisation is calculated using the straight-line method over the remaining useful lives ranging from 40 to 48 years for all the prepaid lease payments.

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 to be returned to the local government authority would be subsequently put in auction ("Auction"), and the local government authority agreed to share 50% net gain, if any, 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 ("Net Gain"). 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 by Hengshi Fiberglass.

The Auction has been completed in November 2015 and the land use right was sold to a subsidiary of Zhenshi Group, a related party of the Group and 30% Net Gain would be received by the Group. During the current interim period, the compensation and necessary costs for the Auction has been finalised and approved by the government authority and Hengshi Fiberglass received the Net Gain of RMB1,045,000 and was credited to profit or loss, accordingly.

13. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2016, the deposits paid for acquisition of property, plant and equipment mainly include the deposit amounted to RMB70,000,000 (31 December 2015: nil) to Zhenshi Group, a related party of the Group for the acquisition of an office building, which will be transferred to the Group after the completion of the construction in 2018.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

14. TRADE AND OTHER RECEIVABLES, BILLS RECEIVABLES AND AMOUNTS DUE FROM OTHER RELATED PARTIES

(A) Trade and other receivables

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Trade receivables	424,163	365,238
Less: allowance for doubtful debts	(24,416)	(21,280)
	399,747	343,958
Prepayments	2,200	668
Other taxes recoverable	1,861	9,413
Deposits	1,279	311
Other receivables	1,379	509
	6,719	10,901
Trade and other receivables	406,466	354,859

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.

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Within 90 days	270,100	216,020
91 to 180 days	92,058	88,530
181 days to 1 year	37,565	32,368
1 to 2 years	7	7,005
Over 2 years	17	35
	399,747	343,958

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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

14. TRADE AND OTHER RECEIVABLES, BILLS RECEIVABLES AND AMOUNTS DUE FROM OTHER RELATED PARTIES (Continued)

(B) Bills receivables

The following is an aged analysis of bills receivables, which are not yet due at the end of the periods.

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Within 90 days	52,203	12,000
91 to 180 days	12,425	3,500
Over 180 days	–	30
	<u>64,628</u>	<u>15,530</u>

(C) Amounts due from other related parties

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Trade related	<u>19,650</u>	<u>21,623</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, at the end of periods.

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Within 90 days	12,215	5,409
91 to 180 days	6,400	6,368
181 days to 1 year	732	2,968
Over 1 years	303	6,878
	<u>19,650</u>	<u>21,623</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

15. TRADE AND OTHER PAYABLES, BILLS PAYABLES AND AMOUNTS DUE TO OTHER RELATED PARTIES

(A) Trade and other payables

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Trade payables	10,664	6,821
Deposits received from customers	1,614	5,093
Interest payables	–	511
Other taxes payable	3,429	484
Payables for purchase of property, plant and equipment	13,372	8,320
Retention payable	1,221	1,731
Accrued listing expense	5,305	17,652
Other payables	5,051	6,418
	40,656	47,030

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 the periods.

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Within 90 days	10,107	6,144
91 to 180 days	272	609
181 days to 1 year	252	52
1 to 2 years	19	3
Over 2 years	14	13
	10,664	6,821

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

15. TRADE AND OTHER PAYABLES, BILLS PAYABLES AND AMOUNTS DUE TO OTHER RELATED PARTIES (Continued)

(B) Bills payables

The aged analysis of bills payables at the end of the periods was as follow.

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Within 30 days	65,219	71,302
31 to 60 days	85,971	26,524
61 to 90 days	9,039	20,390
91 to 180 days	83,296	50,293
	<u>243,525</u>	<u>168,509</u>

(C) Amounts due to other related parties

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Trade related	73,533	15,955
Non-trade related	82	–
	<u>73,615</u>	<u>15,955</u>

The credit period of trade related payables to other related parties is from 30 to 90 days. The following is an aged analysis of trade related payables due to other related parties presented based on the goods receipt date at the end of the periods.

	30/06/2016 RMB'000 (Unaudited)	31/12/2015 RMB'000 (Audited)
Within 90 days	67,883	15,604
91 to 180 days	2,627	198
181 days to 1 year	3,023	153
	<u>73,533</u>	<u>15,955</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

16. BANK BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB180,000,000 (31 December 2015: RMB931,150,000) and repaid RMB420,000,000 (31 December 2015: RMB951,484,000).

As of 30 June 2016, RMB130,000,000 (31 December 2015: RMB220,000,000) of the bank borrowings carry interest at the variable market rates, with effective interest rate of 4.35% (31 December 2015: 4.60%) per annum over the current interim period, while RMB30,000,000 (31 December 2015: RMB180,000,000) carry interest at fixed market rates of 4.35% (31 December 2015: 4.60%). The bank borrowings as at 30 June 2016 and 31 December 2015 are repayable in full within 1 year. The proceeds raised during the current interim period were used for general working capital purpose.

17. SHARE CAPITAL

The share capital as at 1 January 2015 represents the paid-in capital of Hengshi Fiberglass. Prior to the completion of the group reorganisation in 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 before the Group Reorganisation.

The Company was incorporated on 23 February 2015 and became the holding company of the entities now comprising the Group in April 2015. The issued capital at 30 June 2016 and 2015 represents the issued capital of the Company.

Details of movements of share capital of the Company are as follows:

	Number of shares	Amount USD
Authorised (at par value of US\$0.001 each)		
Authorised on date of incorporation of 23 February 2015	50,000	50,000
Sub-division of authorised shares on 7 May 2015 (note a)	49,950,000	–
Increase of authorised shares on 7 May 2015 (note a)	<u>1,950,000,000</u>	<u>1,950,000</u>
As at 30 June 2016 and 31 December 2015	<u>2,000,000,000</u>	<u>2,000,000</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

17. SHARE CAPITAL (Continued)

	Number of shares	Amount USD	RMB equivalent RMB'000
<u>Issued and fully paid (at par value of US\$0.001 each)</u>			
On date of incorporation of 23 February 2015	1	1	–
Issue of new ordinary shares on 23 February 2015	99	99	1
Sub-division of shares on 7 May 2015 (note a)	99,900	100	1
As at 30 June 2015	<u>100,000</u>	<u>100</u>	<u>1</u>
Issue of new ordinary shares on 17 August 2015 (note b)	749,900,000	749,900	4,591
Issue of new shares for Global Offering on 21 December 2015 (note c)	<u>250,000,000</u>	<u>250,000</u>	<u>1,615</u>
As at 31 December 2015 and 30 June 2016	<u>1,000,000,000</u>	<u>1,000,000</u>	<u>6,207</u>

Notes:

- (a) On 7 May 2015, the Company sub-divided the authorised shares from 50,000 to 50,000,000 of a par value of USD0.001 each. 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.
- (b) On 17 August 2015, 329,559,000, 120,381,000, 224,970,000 and 74,990,000 shares of the Company was allotted and issued to Huachen Investment, Huakai Investment, Trade Power Investments Limited and Joyfar Limited with par value of USD0.001 (equivalent to RMB0.006) each, totaling RMB607,109,000, which were credited as fully paid from other reserve upon completion of the issue of shares by the Company.
- (c) On 21 December 2015, the Company issued 250,000,000 shares with par value of USD0.001 (equivalent to RMB0.006) each under the Global Offering at HK\$2.15 (equivalent to RMB1.79) per share.
- (d) The new shares issued rank pari passu with the existing shares in all respects.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

18. FAIR VALUE MEASUREMENTS

Fair value of the Group's financial assets and liabilities 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), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- 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.

Financial liabilities	Classified as	Fair value <i>RMB'000</i>	Fair value hierarchy	Basis of fair value measurement/ valuation technique(s) and key input(s)
As at 30 June 2016				
Foreign currency forward contracts	Financial liabilities at FVTPL	Liabilities – 3,584	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
As at 31 December 2015				
Foreign currency forward contracts	Financial liabilities at FVTPL	Liabilities – 1,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the year) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

18. FAIR VALUE MEASUREMENTS (Continued)

Except for set out above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 30 June 2016 and 31 December 2015 are recorded at amortised cost in the condensed consolidated financial statements approximate their fair value.

19. CAPITAL COMMITMENTS

At the end of the period, the Group had the following capital commitments.

	30/06/2016 RMB'000	31/12/2015 RMB'000
Capital expenditure in respect of acquisition of property plant and equipment and construction in progress		
– Contracted for but not provided for	23,200	75,000

20. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in this report, the Group had also entered into the following related party transactions during periods.

Name of related parties	Relationship	Nature of transactions	For the six months ended	
			30 June	2015
			2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Zhenshi Group (HK) Sinosa Technology Company Limited	note (i)	Sales of finished goods	11,903	3,007
Zhenshi Spain S.A.	note (i)	Sales of finished goods	–	108
Zhenshi Group Huamei New Materials Co., Ltd.# (振石集團華美新材料 有限公司)	note (i)	Purchase of property plant and equipment	–	1,142

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

20. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Relationship	Nature of transactions	For the six months ended	
			30 June	
			2016	2015
			RMB'000	RMB'000
			(Unaudited)	(Audited)
Yushi International#	note (i)	Services charges incurred	28,419	24,342
		Rental income earned	–	147
		Prepayment of value added tax in respect of overseas purchase of machineries	–	2,523
Zhenshi Group Jucheng Real Estate Development Co., Ltd.# (振石集團巨成置業有限公司)	note (i)	Purchase of property plant and equipment	–	655
		Services charges incurred	147	–
Inspirock Hotel Co., LTD.# (振石大酒店有限公司)	note (i)	Services charges incurred	798	1,388
		Scrap sales earned	–	2
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司)	note (i)	Services charges incurred	472	217
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)	note (i)	Services charges incurred	138	102
Tongxiang Huarui Automatic Control Technology and Equipment Co., Ltd.# (桐鄉華銳自控技術裝備有限公司)	note (i)	Purchase of property plant and equipment	–	10
		Purchase of raw materials	17	–

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

20. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Relationship	Nature of transactions	For the six months ended	
			2016	2015
			RMB'000	RMB'000
			(Unaudited)	(Audited)
Zhenshi (US) International Trading Limited (formerly known as Hengshi Fiberglass (USA). INC)	note (i)	Sales of finished goods	–	29,100
Jushi Group Co., Ltd.# (巨石集團有限公司)	note (ii)	Purchase of raw materials	7,899	52,175
		Scrap sales earned	–	263
		Service income earned	22	–
		Rental expense	–	9
Jushi Group Chengdu Co., Ltd.# (巨石集團成都有限公司)	note (ii)	Purchase of raw materials	–	506
Jushi Group Jiujiang Co., Ltd.# (巨石集團九江有限公司)	note (ii)	Purchase of raw materials	–	1,827
P-D Jushi Interglas Co., Ltd.# (巨石攀登電子基材有限公司)	note (ii)	Purchase of raw materials	1,443	2,125
		Rental expense	18	–
Jushi France, SAS	note (ii)	Sales of finished goods	729	1,322
Temax Italia S.R.L.	note (ii)	Sales of finished goods	291	171
Jushi Singapore Pte. Ltd.	note (ii)	Sales of finished goods	539	335
Jushi India FRP Accessories Co., Ltd.	note (ii)	Sales of finished goods	421	926
Jushi Canada Fiberglass Co., Ltd.	note (ii)	Sales of finished goods	394	291

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

20. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Relationship	Nature of transactions	For the six months ended	
			2016	2015
			RMB'000	RMB'000
			(Unaudited)	(Audited)
Jushi Japan Co., Ltd.	note (ii)	Sales of finished goods	–	467
Jushi USA Fiberglass Co., Ltd.	note (ii)	Purchase of raw materials	–	51
		Rental expense	137	–
China Jushi Co., LTD (中國巨石股份有限公司, formerly known as China Fiberglass Co., Ltd.)	note (ii)	Scrap sales earned	487	582
		Purchase of raw materials	311,376	122,952
Jushi Spain S.A.	note (ii)	Sales of finished goods	1,191	433
Jushi Egypt for Fiberglass industry S.A.E	note (ii)	Purchase of raw materials	460	111
Jushi Group (BZ) Sinosia Composite Materials Co., Ltd.	note (ii)	Sales of finished goods	2,162	–
Jushi Group (HK) Sinosia Composite Materials Co., Ltd.	note (ii)	Sales of finished goods	123	–
Shanghai Tianshi International Logistics Co., Ltd.* (上海天石國際貨運代理 有限公司)	note (iii)	Services charges incurred	10,806	5,494
Marquis Logistics, INC.	note (iii)	Services charges incurred	562	–

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

20. RELATED PARTY TRANSACTIONS (Continued)

Name of related parties	Relationship	Nature of transactions	For the six months ended	
			2016	2015
			RMB'000	RMB'000
			(Unaudited)	(Audited)
Zhenshi Group	note (iv)	Sales of finished goods	1,603	3,149
		Purchase of raw materials	–	91,763
		Purchase of property plant and equipment	–	10,693
		Deposits paid for acquisition of property, plant and equipment	70,000	–
		Interest income earned	–	2,901
		Scrap sales earned	–	10
		Rental expense	121	6

Certain trademarks owned by Zhenshi Group were used by the Group free of charge during the periods.

* English translated name is for identification purpose only.

Notes:

- (i) The management considers these entities are related parties as Mr. Zhang Yuqiang, who is one of the Controlling Shareholders of the Group, has controlling interest in these entities.
- (ii) The management considers these entities are related parties as Mr. Zhang Yuqiang has significant influence on these entities.
- (iii) The management considers this entity are related parties as Mr. Zhang Jiankan, who is the son of Mr. Zhang Yuqiang and one of the Controlling Shareholders and key management personal of the Group, has controlling interest in this entity.
- (iv) 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.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2016

20. RELATED PARTY TRANSACTIONS (Continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the periods is as follows.

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Audited)
Salaries and other benefits	2,862	1,106
Performance related bonus (note)	129	84
Retirement benefits schemes contribution	26	26
	3,017	1,216

Note:

Performance related bonus is determined with reference to the Group's operating results, individual performance and comparable market statistics.

21. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 23 August 2016.