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## CHINA HENGSHI FOUNDATION COMPANY LIMITED

### 中國恒石基業有限公司

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

(Stock code: 1197)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

### FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Year-on-Year Change
	2016 RMB'000	2015 RMB'000	
<b>Results</b>			
Revenue	1,236,439	1,002,901	23.29%
Gross profit	420,721	298,521	40.94%
Gain on release of financial guarantee contracts	–	65,300	(100%)
Profit before tax	312,193	209,661	48.90%
Profit for the year	252,833	181,492	39.31%
Total comprehensive income for the year	210,039	180,951	16.08%
Profit (loss) for the year attributable to:			
Owners of the Company	257,787	181,977	41.66%
Non-controlling interests	(4,954)	(485)	921.44%
	252,833	181,492	39.31%
Total comprehensive income for the year attributable to:			
Owners of the Company	213,978	181,490	17.90%
Non-controlling interests	(3,939)	(539)	630.80%
	(210,039)	180,951	16.08%
Earnings per share – basic (RMB)	0.26	0.25	4.00%

The board of directors (the “**Directors**”) (the “**Board**”) of China Hengshi Foundation Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**” or “**we**”) for the year ended 31 December 2016 (the “**Reporting Period**”), together with the comparative figures for the year ended 31 December 2015 as follows:

## **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the year ended 31 December 2016*

	<i>Notes</i>	<b>Year ended 31 December 2016 RMB'000</b>	<b>Year ended 31 December 2015 RMB'000</b>
Revenue	4	<b>1,236,439</b>	1,002,901
Cost of sales		<b>(815,718)</b>	(704,380)
Gross profit		<b>420,721</b>	298,521
Other income	6	<b>35,648</b>	15,386
Other gains and losses	7	<b>37,508</b>	69,634
Selling and distribution expenses		<b>(84,224)</b>	(61,596)
Administrative expenses		<b>(54,250)</b>	(29,964)
Research expenditure		<b>(37,392)</b>	(32,688)
Other expenses		<b>(34)</b>	(28,042)
Finance costs		<b>(5,784)</b>	(21,590)
Profit before tax	8	<b>312,193</b>	209,661
Income tax expense	9	<b>(59,360)</b>	(28,169)
Profit for the year		<b>252,833</b>	181,492

	<b>Year ended 31 December 2016</b>	Year ended 31 December 2015
<i>Notes</i>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
Other comprehensive expense		
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Exchange differences arising on translating foreign operations	<u>(42,794)</u>	<u>(541)</u>
Total comprehensive income for the year	<u><b>210,039</b></u>	<u>180,951</u>
Profit (loss) for the year attributable to:		
Owners of the Company	<b>257,787</b>	181,977
Non-controlling interests	<u>(4,954)</u>	<u>(485)</u>
	<u><b>252,833</b></u>	<u>181,492</u>
Total comprehensive income (expense) for the year attributable to:		
Owners of the Company	<b>213,978</b>	181,490
Non-controlling interests	<u>(3,939)</u>	<u>(539)</u>
	<u><b>210,039</b></u>	<u>180,951</u>
Earnings per share – basic ( <i>RMB</i> )	<i>11</i>	
	<u><b>0.26</b></u>	<u>0.25</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2016*

	<i>Notes</i>	As at <b>31 December 2016</b> <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>510,597</b>	547,123
Prepaid lease payments		<b>30,033</b>	30,809
Deferred tax assets		<b>10,538</b>	10,406
Deposits paid for acquisition of property, plant and equipment		<b>78,695</b>	688
		<b>629,863</b>	589,026
<b>CURRENT ASSETS</b>			
Inventories		<b>126,132</b>	96,697
Prepaid lease payments		<b>776</b>	776
Trade and other receivables	12	<b>386,687</b>	354,859
Bills receivables		<b>36,500</b>	15,530
Amounts due from related parties		<b>14,401</b>	21,623
Pledged bank deposits		<b>133,603</b>	108,834
Bank balances and cash		<b>269,397</b>	502,428
		<b>967,496</b>	1,100,747
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	<b>34,779</b>	47,030
Bills payables		<b>271,013</b>	168,509
Amounts due to related parties		<b>11,461</b>	15,955
Amounts due to a shareholder		<b>7</b>	–
Financial liabilities at fair value through profit or loss (“FVTPL”)		–	1,000
Tax payable		<b>12,579</b>	455
Bank borrowings		<b>50,000</b>	400,000
Deferred revenue		<b>300</b>	300
		<b>380,139</b>	633,249
<b>NET CURRENT ASSETS</b>		<b>587,357</b>	467,498
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,217,220</b>	1,056,524

	<b>As at 31 December 2016 RMB'000</b>	As at 31 December 2015 RMB'000
<b>NON-CURRENT LIABILITIES</b>		
Deferred tax liabilities	7,886	2,336
Deferred revenue	<u>2,250</u>	<u>2,550</u>
	<u>10,136</u>	<u>4,886</u>
<b>NET ASSETS</b>	<u><b>1,207,084</b></u>	<u>1,051,638</u>
<b>CAPITAL AND RESERVES</b>		
Share capital	6,207	6,207
Reserves	<u>1,202,665</u>	<u>1,043,885</u>
Equity attributable to owners of the Company	<b>1,208,872</b>	1,050,092
Non-controlling interests	<u>(1,788)</u>	<u>1,546</u>
<b>TOTAL EQUITY</b>	<u><b>1,207,084</b></u>	<u>1,051,638</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 23 February 2015. The 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, who is acting in concert with him (collectively known as the "**Controlling Shareholders**"). The Company changed its name from Hengshi Holdings to China Hengshi Foundation Company Limited on 7 May 2015. The registered office of the Company is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The principle place of business is No. 1 Guang Yun South Road, Tongxiang Economic Development Zone, Tongxiang, Zhejiang Province, the PRC. The Company 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 consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as 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, respectively.

Huaxu Investment Limited ("**Huaxu Investment**") was incorporated in the BVI on 4 March 2015 with limited liability. On 6 March 2015, Huaxu Investment allotted one subscriber share to the Company, pursuant to which Huaxu Investment became a wholly owned subsidiary of the Company.

Huajin Capital Limited ("**Huajin Capital**") was incorporated under the laws of Hong Kong on 20 March 2015 with limited liability. On the same day, Huajin Capital allotted one subscriber share to Huaxu Investment, pursuant to which Huajin Capital became a wholly-owned subsidiary of Huaxu Investment.

On 1 April 2015, Huachen Investment transferred 40% and 10.632% equity interest of the Company to certain companies beneficially owned by certain individual shareholders and Huakai Investment, respectively. Huachen Investment and Huakai Investment owns 43.947% and 16.053% equity interest of the Company since then.

On 1 April 2015, Mr. Zhang Yuqiang transferred his 4.05% equity interest in Huachen Investment to certain individuals and Mr. Zhang Yuqiang owns 95.95% equity interest of Huachen Investment since then.

As part of the group reorganisation, on 15 April 2015, Huajin Capital entered into an equity transfer agreement to acquire all the shares of Zhejiang Hengshi Fiberglass Fabrics Co., Ltd ("**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 9 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 statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the year ended 31 December 2015 included 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 year or since their respective dates of incorporation or establishment where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2015 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at the respective dates, taking into account the respective dates of incorporation.

### **3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)**

#### **Amendments to IFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) for the first time in the current year:

Amendments to IFRS 11	<i>Accounting for Acquisitions of Interest in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statement</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2012–2014 Cycle</i>

## New and amendments to IFRSs which have been issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
IFRIC 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts <sup>1</sup>
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers <sup>1</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 7	Disclosure Initiative <sup>4</sup>
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>
Amendments to IAS 40	Transfers of Investment Property <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018 (if applicable)

## 4. REVENUE

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

	<b>Year ended 31 December 2016 RMB'000</b>	Year ended 31 December 2015 RMB'000
Multi-axial fabrics	<b>828,489</b>	721,784
Uni-directional fabrics	<b>320,950</b>	226,026
Woven roving combo mat	<b>33,557</b>	19,724
Stitched mat	<b>6,779</b>	4,633
E/PP compofil fabrics	<b>46,664</b>	30,734
Total	<b><u>1,236,439</u></b>	<u>1,002,901</u>

The following is an analysis of revenue classified by sales of its products based on contract terms during the year:

	<b>Year ended 31 December 2016 RMB'000</b>	Year ended 31 December 2015 RMB'000
Products specified in contracts for wind turbine blade sector	<b>1,042,919</b>	890,539
Other	<b>193,520</b>	112,362
Total	<b><u>1,236,439</u></b>	<u>1,002,901</u>

## 5. SEGMENT INFORMATION

The Group has been operating in one operating and reportable segment, being manufacture and sale of fiberglass fabrics. The management of the Group, being the General Manager who is the chief operating decision maker, makes decisions based on the consolidated financial statements of the Group prepared in accordance with IFRSs about resources allocation and performance assessment.

### 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.

	<b>Year ended 31 December 2016 RMB'000</b>	Year ended 31 December 2015 RMB'000
The PRC	599,558	547,865
Other	19,767	30,755
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Total	<b>619,325</b>	<b>578,620</b>

### Revenue from major products

Details of the revenue from major products are set out in note 4.

### 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 year.

	<b>Year ended 31 December 2016 RMB'000</b>	Year ended 31 December 2015 RMB'000
Overseas markets		
Europe	372,255	281,032
North America	252,056	152,925
Asia ( <i>note a</i> )	81,970	53,007
Latin America	44,289	21,377
Australia	645	153
Africa	294	329
	<hr/>	<hr/>
PRC market ( <i>note b</i> )	<b>751,509</b>	508,823
	<b>484,930</b>	494,078
	<hr/>	<hr/>
Total	<b>1,236,439</b>	<b>1,002,901</b>

*Notes:*

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

## Information about major customers

The following table sets out the revenue from customers contributing over 10% of the total sales of the Group during the year.

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2015 <i>RMB'000</i>
Customer A	221,934	190,712
Customer B	140,683	111,511
Customer C	<i>note</i>	107,907
Customer D	123,714	150,101
	<u>486,331</u>	<u>560,231</u>

*Note:* The Group carried out transactions with this customer but the amount of transactions was less than 10% of revenue for the year.

## 6. OTHER INCOME

	For the year ended 31 December 2016 <i>RMB'000</i>	For the year ended 31 December 2015 <i>RMB'000</i>
Bank interest income	6,059	2,132
Interest income from loan to a shareholder	–	2,901
Government grants	22,922	4,332
Gain on scrap sales	4,752	5,746
Rental income	–	215
Sundry income	1,915	60
	<u>35,648</u>	<u>15,386</u>

## 7. OTHER GAINS AND LOSSES

	For the year ended 31 December 2016 <i>RMB'000</i>	For the year ended 31 December 2015 <i>RMB'000</i>
(Loss) gain on financial instruments at FVTPL	(3,000)	4,800
Allowance for doubtful debts	(6,696)	(13,954)
Reversal of allowance for doubtful debts	6,696	–
Gain on release of financial guarantee contracts	–	65,300
Net gain received under the compensation agreement	1,045	–
Loss on disposal of property, plant and equipment	(54)	(161)
Foreign exchange gain (loss), net	39,517	13,649
	<u>37,508</u>	<u>69,634</u>

## 8. PROFIT BEFORE TAX

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
Profit before tax has been arrived at after charging (crediting)		
Auditors' remuneration	2,250	1,550
Directors' emoluments	4,625	2,599
Other staff costs	91,498	78,850
Retirement benefit schemes contribution for other staff	5,291	4,238
	<hr/>	<hr/>
Total staff costs	101,414	85,687
Depreciation of property, plant and equipment	65,235	54,182
Release of prepaid lease payments	776	776
	<hr/>	<hr/>
Total depreciation and amortisation	66,011	54,958
Allowance for doubtful debts	6,696	13,954
Reversal of allowance for doubtful debts	(6,696)	(2,774)
Allowance for write-downs of inventories (recognised in cost of sales)	2,837	548
Gain on release of financial guarantee contracts	–	65,300
Loss on disposal of property, plant and equipment	54	161
Cost of inventories recognised as expenses	815,718	704,380
Minimum lease payment in respect of leased premises	4,781	1,577
	<hr/>	<hr/>

## 9. INCOME TAX EXPENSE

	For the year ended 31 December 2016 RMB'000	For the year ended 31 December 2015 RMB'000
<b>Current tax</b>		
Enterprise Income Tax (the "EIT") in the PRC	48,020	26,582
Other jurisdictions	672	–
Withholding tax paid	6,066	–
	<hr/>	<hr/>
	54,758	26,582
(Over) Under provision in prior years in the PRC	(396)	961
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	54,362	27,543
Deferred tax expenses	4,998	626
	<hr/>	<hr/>
	59,360	28,169
	<hr/>	<hr/>

## 10. DIVIDENDS

A final dividend in respect of the year ended 31 December 2016 of RMB0.0885 (2015: RMB0.0546) per share, totaling RMB88,500,000 (2015: RMB54,593,000) has been recommended by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting.

## 11. EARNINGS PER SHARE

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

	<b>For the year ended 31 December 2016 RMB'000</b>	For the year ended 31 December 2015 RMB'000
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	<u>257,787</u>	<u>181,977</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<u><b>1,000,000,000</b></u>	<u>741,729,161</u>

## 12. TRADE AND OTHER RECEIVABLES

	<b>As at 31 December 2016 RMB'000</b>	As at 31 December 2015 RMB'000
Trade receivables	<b>393,075</b>	365,238
Less: allowance for doubtful debts	<u>(21,280)</u>	<u>(21,280)</u>
	<u><b>371,795</b></u>	<u>343,958</u>
Prepayments	<b>3,369</b>	668
Other taxes recoverable	<b>2,818</b>	9,413
Deposits	<b>1,302</b>	311
Other receivables ( <i>note</i> )	<u><b>7,403</b></u>	<u>509</u>
	<u><b>14,892</b></u>	<u>10,901</u>
Trade and other receivables	<u><b>386,687</b></u>	<u>354,859</u>

*Note:* Other receivables include mainly advanced to employee for operational purpose.

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 approximates the revenue recognition date.

	<b>As at 31 December 2016 RMB'000</b>	As at 31 December 2015 RMB'000
Within 90 days	235,349	216,020
91 to 180 days	76,440	88,530
181 days to 1 year	60,006	32,368
1 to 2 years	–	7,005
Over 2 years	–	35
	<u>371,795</u>	<u>343,958</u>

The following is an aged analysis of trade receivables based on the invoice date, which are past due but not impaired as the management considered there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

	<b>As at 31 December 2016 RMB'000</b>	As at 31 December 2015 RMB'000
Within 90 days	14,251	29,224
91 to 180 days	76,440	88,530
181 days to 1 year	60,006	32,368
1 to 2 years	–	7,005
Over 2 years	–	35
	<u>150,697</u>	<u>157,162</u>

#### Movements in the allowance for doubtful debts

	<b>For the year ended 31 December 2016 RMB'000</b>	For the year ended 31 December 2015 RMB'000
Balance at the beginning of the year	21,280	10,100
Allowance for doubtful debts	6,696	13,954
Reversal of allowance for doubtful debts	(6,696)	(2,774)
	<u>21,280</u>	<u>21,280</u>

### 13. TRADE AND OTHER PAYABLES

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>
Trade payables	9,105	6,821
Deposits received from customers	1,230	5,093
Interest payables	60	511
Other taxes payable	350	484
Payables for purchase of property, plant and equipment	6,568	8,320
Retention payable	578	1,731
Accrued listing expense	5,550	17,652
Transportation cost payables	5,843	1,314
Other payables	5,495	5,104
	<hr/>	<hr/>
Trade and other payables	<b>34,779</b>	<b>47,030</b>
	<hr/>	<hr/>

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 years.

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>
Within 90 days	8,629	6,144
91 to 180 days	167	609
181 days to 1 year	245	52
1 to 2 years	45	3
Over 2 years	19	13
	<hr/>	<hr/>
	<b>9,105</b>	<b>6,821</b>
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## MANAGEMENT DISCUSSION AND ANALYSIS

### Industry Overview and Segment Business Condition

#### *Market Review*

##### *1. The global wind power industry kept its upgrade momentum*

According to the data released by the Global Wind Energy Council in 2016, the global newly-installed wind power capacity exceeded 54.6GW (2015: 63.6GW), retreating from the record high in 2015; the global cumulative installed wind power capacity reached 486.7 GW (2015: 432.7GW), which was still able to maintain a double-digit growth.

In 2016, the PRC's newly-installed wind power capacity reached 23.3GW (2015: 30.5GW), accounting for a global market share of 42.73% (2015: 48.4%), a significant decrease as compared to 2015, which was a record-breaking year. The decrease was mainly due to the correction after the "Rush to Install Wave" of wind power capacity in 2015 in the PRC and the shortage of power grid in consumptions of wind power.

The development of wind power market in major developed countries and emerging countries in 2016 was divergent: the newly-installed wind power capacity in India reached 3,612MW which was a new record for the local country and was ranked fourth in the global newly installed wind power capacity in 2016. The European market maintained its strong growth with 13,962MW of annual newly-installed wind power capacity, of which the installed wind power capacity in Germany was 5,443MW, and its cumulative installed capacity exceeded 50GW, which marked a milestone for Germany to become the third country with a total installed wind power capacity over 50GW in the world. Countries such as France, Turkey, Netherlands also made remarkable progress in the wind power development. The newly-installed wind power capacity in Canada and Mexico steadily grew, while in the U.S., the growth was basically flat as compared to its strong growth in 2015.

2. *The PRC continues to encourage healthy development of renewable energy such as the wind power*

The PRC is proactively developing renewable energy such as wind power through energy structure reform policy to promote the development of green economy. To protect the development of the renewable energy industry, National Development and Reform Commission of the PRC (“NDRC”), and National Energy Administration (“NEA”) have rolled out various policies to promote, regulate and guide the development of the entire industry:

From March to April 2016, NDRC and NEA have published the “Measures for the Administration of the Guaranteed Buyout of Electricity Generated by Renewable Energy Resources” (《可再生能源發電全額保障性收購管理辦法》) and “Guiding Opinions on Establishing a Guiding Mechanism for Setting Renewable Energy Development and Utilization Targets” (《關於建立可再生能源開發利用目標引導制度的指導意見》), respectively, which provided for the electricity consumption proportion of non-hydropower renewable energy power among the electricity consumption for the entire society, and expressly stated that the renewable energy failing to meet the protective annualized hours caused by fossil-fuel consumption shall be compensated by fossil-fuel enterprises. It also stated that the set up of renewable energy green certification trading system to meet the target quota in various places.

In May 2016, NDRC and NEA jointly promulgated the “Notice of Administration on Full-amount Purchase of Electricity Generated by Wind and Solar Power” (《關於做好風電、光伏發電全額保障性收購管理工作的通知》), which stated that the minimum protective purchased annualized utilization hours for key areas shall not be less than 1,800 hours to resolve the issue of “limitation of wind and electricity”.

From November to December 2016, NEA issued the “Electricity Development under the 13th Five-Year Plan”, the “Wind Power Development under the 13th Five-Year Plan” and the “Renewable Energy Development under the 13th Five-Year Plan” which requested a full coordination and implementation of the development of wind power, and making a detailed layout on the development of wind power in key areas, in order to achieve the proportion of non-fossil-fuels energy to primary energy consumption of over 15% (2015: 10.1%) and over 20% by 2020 and 2030, respectively in the PRC, and to ensure the accumulated installed capacity of wind power in the PRC shall reach 210 million kilowatt by the end of 2020.

According to the statistics released by The Chinese Renewable Energy Society and China Wind Power Industry Website ([www.windchn.com](http://www.windchn.com)), the newly installed capacity for the entire PRC (excluding Taiwan) in 2016 was 23.77 million kilowatts, representing a year-on-year decrease of 24%, whereas the cumulative installed capacity reached 169 million kilowatts. In 2016, the wind power generation capacity was 241 billion kilowatt in the PRC, representing 4% of the total electricity generation. The wind power has become the PRC’s third largest electricity source after coal and hydropower.

## ***Business Review***

The Group is the world leading manufacturer and supplier of fiberglass fabrics used in wind turbine blades. During the Reporting Period, according to the overall work plan and requirement of “Focus on improving the production capacity, quality, the development of new products, the expansion of customers to ensure the expansion of realizing size, the results and the positions” which was set by the Board, we have positively promoted the research and development of fiberglass fabrics used in wind turbine blades and the optimization of the production process. We have set a series of innovation, adjustments, improvements and implementation in the development of market, the adjustment of structures, improvement of quality, reduction of the costs, the construction of overseas plants and the formation of the team to maintain the rapid growth on productions and sales volume of the Group, to improve the market coverage and expansion of the customers, and further to develop product testing capabilities and effectiveness, the skill capabilities and the stability of the quality.

During the Reporting Period, the Group has achieved revenue of approximately RMB1,236.4 million, representing a growth of approximately of 23.29% as compared with that for the same period last year, among which, approximately RMB1,042.9 million was the revenue of products specified in contracts for wind turbine blade sector, representing a growth of 17.11% as compared with that for the same period last year. The gross profit achieved was approximately RMB420.7 million, representing an increase of 40.94% as compared with that for the same period last year. The net profit was approximately RMB252.8 million, representing an increase of approximately 39.31% as compared with that for the same period last year.

## **ANALYSIS AND DISCUSSION ON THE RESULTS**

Benefitted from the continuous growth in the global wind power industry, especially the overseas wind power market, the predominant leading position of the Group and the proper capture of market opportunities by the management, during the Reporting Period, the Group maintained the trend of strong growth in the production and sales, resulting in a significant outcome in the development of new customers and new products, steady steps of overseas layout, further expansion of market share, breakthroughs in tackling major technical problems, further strengthened quality management and continuous upgrade of production capacity and efficiency.

### **1. Production and sales**

During the Reporting Period, the sales volume, sales revenue and the net profit increased significantly and reached record high. The annual total production volume has an increase of 19.75% as compared with that for the same period last year, whereas the sales volume has an increase of 16.55% as compared with that for the same period last year. The sales revenue amounted to RMB1,236.4 million, representing an increase of 23.29% as compared with that for the same period last year, among which, our revenue generated from sales to wind turbine blade amounted to approximately RMB1,042.9 million, representing a growth of 17.11% as compared with that for the same period last year; gross profit amounted to approximately RMB420.7 million, representing an increase of approximately 40.94% as compared with that for the same period last year;

net profit amounted to RMB252.8 million, representing an increase of approximately 39.31% as compared with that for the same period last year.

## 2. Market development

### *Maintenance and development of customers*

During the Reporting Period, adhering to the principle of “Consolidating old customers and exploring new clients”, the Group visited domestic and international customers 157 times in aggregate and enhancing their further strengthening the cooperation relationship with existing customers and enhancing their confidence and satisfaction to our products. The Company has achieved the incremental sales revenue from existing customers of RMB240.3 million, representing 19.44% of the sales revenue of the year. The Company has realized bulk supply of products to 5 semi-new customers (the customers developed in 2014 and 2015), which included LM Wind Power, an international renowned wind turbine blades manufacturer. We built the relationship between new customers at local and abroad and further expanded the primarily wind market such as Germany and India. 11 new customers were developed, and 6 of them are high modulus product customers.

We would continue to strengthen the testing verification of the new products for our new and existing customers. The annual total number of samples sent to our customers for testing was 461, representing an increase of 58.97% for the same period last year. Currently, we have nine new customers undergoing testing verification.

### *Adjustment to market structure*

During the Reporting Period, facing the continuous and steady growth of overseas wind power market, as well as the good timing of change in the exchange rate of RMB, the management of the Company adjusted the market structure in a timely manner and increased its efforts on export. The annual export sales revenue was RMB751.5 million, representing 60.78% of total sales revenue and an increase of 47.70% as compared to the same period of last year.

### *Adjustment to product structure*

The Group 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. On one hand, we strengthened promotion on high modulus products such as E7 (a new high modulus glass fiber), and actively participated in the development of new high performance fiberglass fabrics E8 (the newest high modulus glass fiber) in wind power. During the Reporting Period, the high modulus products of the Group started selling across the globe, with the annual high modulus sale revenue amounted to approximately RMB205.3 million, representing 16.60% of the total sales revenue, and an increase of 154.20% as compared to the same period of last year; On the other hand, we pursued and extended the value chain of product and service while we actively tried and developed fiberglass fabrics used in other fields and relevant market. We strengthened promotion on non-wind products, such as usage in lightweight of automobile. We recorded an annual non-wind product sales revenue of approximately RMB193.5 million, representing a growth of 72.15% as compared with that for the same period last year.

### *Brand Promotion*

During 14 to 15 April 2016, “China International Composite Materials For Wind Power Industry Summit 2016” (《2016 中國國際風電複合材料高峰論壇》) was held in Tongxiang City, Zhejiang Province, where the headquarter of the Group is located. More than 200 domestic and foreign wind power-related companies and over 500 experts and business representatives in wind power industry conducted in-depth discussions and exchanges around “the application and development trend of high performance composite materials in wind power industry”. As a co-sponsor of the summit, Mr. ZHANG Yuqiang, the Chairman of the Board delivered a speech at the opening ceremony of the summit, addressing that the Company, as the world’s leading wind power-related fiberglass fabrics manufacturing enterprise, had a vision to promote the development of the global wind power. The Company gave a keynote speech entitled “Fiberglass fabric solution for wind power blade”, which introduced the excellent quality of Company’s fiberglass fabric and its extensive application in the field of wind power comprehensively and systematically, and demonstrated the Company’s leading technology, advanced manufacturing equipment and strong laboratory research and development capabilities for future lightweight construction of wind turbine blades.

During the Reporting Period, we have also showcased the Group’s products through the platforms such as “JEC World Composites Show & Conferences” (《法國 JEC 複合材料展》), “Shanghai International Glass Fiber Composite Material Expo” (《上海國際玻璃纖維複合材料展覽會》) and “China Wind Power” (《北京國際風能展覽會》) to promote the products of the Group, and established a mutual communicating mechanism with the customers. At the same time, we increased the Group’s exposure at domestic and abroad by conducting product and brand promotion campaigns on specific issues on wind power and wind power related website.

### **3. Production management and creative optimization**

During the Reporting Period, in the mind set of “Innovating management with reducing cost and increasing efficiency”, we encouraged all employees to participate in innovation upgrade to accelerate the upgrade of production manufacturing equipment and auxiliary equipment, optimization and adjustment of production layout and operational process.

During the Reporting Period, we have effectively promoted the production management efficiency, reduced unit production cost, decreased labour intensity effectively, upgraded the production process including automation, informationization, intellectualization, and refinement by a series of creative optimization initiatives including the development and operation of warp and weft yarn full put, the autostop system for broken warp or weft yarn, and the comprehensive promotion of the development and commissioning of the Manufacturing Execution System (“**MES System**”). While having the product quality improved, the Group’s production efficiency of uni-direction fabrics and multi-axial fabrics which are the two main series of product, increased substantially. The annual productive jobs usage decreased by 8.03% while the yield of products increased by about 0.5 percentage points.

#### 4. Innovation of product and process technologies and testing verification

During the Reporting Period, the Group has made a remarkable progress in respect of process technologies innovation and testing verification.

During the Reporting Period, we provided solution on lightweight manufacturing of large blades for customers by optimizing the structure design of fiberglass fabrics. We continuously improved the process compatibility for customers in the later stages of production through constant upgrades of our process technologies and equipment. We believe we could create larger value for customers by elevating the production efficiency for them through our extended processing to our products, which shortens production cycle of customers.

In respect of the establishment of testing capacity, during the Reporting Period, Hengshi Fiberglass Testing Center (the “**Center**”) has obtained Laboratory accreditation from China National Accreditation Service for Conformity Assessment (“**CNAS**”) and authorized accredited laboratory from DNV GL, which means the Center has the ability to conduct testing in accordance with relevant international accreditation standards and may use “**CNAS**” certification mark, “**ILAC-MRA/CNAS**” joint certification mark and “**DNV GL**” certification mark in the relevant testing report at the same time. Currently, apart from the third party verification institutes, Hengshi Fiberglass is one of the few enterprises in the world that has the CNAS laboratory certification and the DNV GL laboratory certification at the same time, which is also the only Chinese company holding the two certifications in the fiberglass fabrics used in wind power industry.

CNAS is the only professional institution approved by Certification and Accreditation Administration in the PRC, with the permission to follow the international ISO/IEC17025 standard “General requirements for the competence of testing and calibration laboratories” to evaluate laboratories and to give formal affirmation. CNAS laboratory is the highest permit for the capability of the laboratories in the PRC, it also has the strictest condition demands for applicants and it takes longest time to award recognition.

DNV GL is the certification issued by the DNV GL Group. The group is a combined institute of Germanischer Lloyd and Det Norske Veritas. DNV GL is a universally recognized institution of testing and certification in the wind power industry, with half of the large scale wind power certification around the world done by DNV GL. During the wind power development process in the last 30 years, DNV GL developed and announced the most comprehensive certification requirements, structured system in the world, which are widely adopted as the IEC international standard. Parties in the wind power market at home and abroad, including wind turbine manufacturers, blade manufacturers, wind turbine components manufacturers, and raw material manufacturers in the wind power industry all accredit the DNV GL certification.

Until now, all the testing methods, which covered all the laboratory testing items in fiberglass fabrics used in wind power, completely mastered by the Center have met the international ISO and ASTM standards. Certain key testing items of these testing methods are at the world leading level.

The reliable testing capability and method of the Center have provided an important protection during the process of the Group's product research and performance evaluation testing, which can further improve the Group's influence, recognition, brand image in the field of wind power. From which, the Group's research, testing and quality assurance capabilities will be recognized and trusted by the more and more customers.

During the Reporting Period, Hengshi Fiberglass was invited as the main drafting party of the National Standard of the "Testing Method for the Performance of Pull-Pull Fatigue of Glass Fiber Reinforced Plastics" (《玻璃鋼拉-拉疲勞性能試驗方法》) initiated by the National Association of FRP, which would further strengthen the leading advantages and influence of the Center in the industry.

## 5. Overseas subsidiaries

During the Reporting Period, the Group continued to uphold the international development strategy to fully unleash the Group's market experience and strong customer base advantages that were accumulated through the Group's long-term profound exploration in international market. The Group continued to expand overseas production scale to facilitate the Group from keeping abreast with the market, customers, and provide better products and services for overseas customers.

During the Reporting Period, Hengshi Egypt Fiberglass Fabrics S.A.E ("**Hengshi Egypt**") has passed the Vestas (being an international renowned wind turbine manufacturer) certification and successfully entered the mass production and supply stage. Hengshi Egypt is orderly expanding testing certifications for certain major wind power customers in Europe. The major testing certification is expected to finish in the first half of 2017, and would further expand the sales market of Hengshi Egypt. Along with the customer testing certification, Hengshi Egypt has established its quality and management system. During the Reporting Period, Hengshi Egypt has passed the "3 system certificates" (namely ISO9000, ISO14000, and OHSAS18000) successfully, as well as a number of customers' reviews.

The Egypt Phase II Expansion Plan is proceeding as planned. In Egypt Phase II Expansion Plan, various progresses from basic factory facilities, installation and commissioning of equipment and productions and operations have been implemented as planned.

The expansion plan in the U.S. is fully implemented as scheduled. At present, Hengshi USA Wind Power Materials Corporation has already been incorporated in the U.S., works such as plant site selection, plant layout and the purchase, installation and testing of equipment in later stage have been implemented in an orderly manner. Formal commissioning is expected to launch at the end of 2017.

## **FINANCIAL REVIEW**

### **Revenue**

For the year ended 31 December 2016, the revenue of the Group amounted to approximately RMB1,236.4 million, representing a year-on-year increase of approximately RMB233.5 million or 23.29%. The revenue growth was mainly attributable to: (1) the Group actively responded and explored customers' demands, actively adjusted its products structure, and continuously improved the sales structure of the products so as to further increase the product sales; (2) the Group adjusted and increased the overseas sale proportion in a timely manner, resulting in the increase in overseas revenue; and (3) the Group continued to strengthen the market expansion, and the orders from the existing customers and new customers increased steadily.

### **Cost of sales**

For the year ended 31 December 2016, our cost of sales amounted to approximately RMB815.7 million, representing a year-on-year increase of approximately RMB111.3 million or 15.81%. The increase on cost of sales was mainly attributable to the increase of the sales of the Group and the corresponding raw materials costs, labor costs, costs of package materials costs and depreciation costs, which was due to the addition of fixed assets in 2016.

### **Gross profit and gross profit margin**

For the year ended 31 December 2016, our gross profit amounted to approximately RMB420.7 million, representing a year-on-year increase of approximately RMB122.2 million or 40.94%, and our gross profit margin was 34.03%, whereas the gross profit margin of the same period of last year was 29.76%. The growth in our gross profit and gross profit margin was mainly attributable to: (1) the adjustment to the Group's product and market structure, particularly the increase in the high value-added products, resulting in an increase in the average selling price of the products; and (2) further enhancement of the production refinement management by the Group in order to eliminate ineffective sessions, to effectively control the production cost, and to allow the showed the economies of scale with improvement in production and sales.

### **Other income**

For the year ended 31 December 2016, our other income amounted to approximately RMB35.6 million, representing a year-on-year increase of approximately RMB20.2 million or 131.17%. The increase was mainly attributable to the increase in the Group's incentive received from the local government due to business development and the increase in bank interest income.

### **Other gains and losses**

For the year ended 31 December 2016, other gains and losses of the Group amounted to approximately RMB37.5 million, representing a decrease of approximately RMB32.1 million or approximately 46.14% as compared with that for the same period last year. The main reason was that the Group obtained the one-off and non-recurring gain of approximately RMB65.3 million on release of financial guarantee contracts for the year ended 31 December 2015, and there was no such gain during the Reporting Period.

## **Selling and distribution expenses**

For the year ended 31 December 2016, selling and distribution expenses of the Group amounted to approximately RMB84.2 million, representing an increase of approximately RMB22.6 million or 36.74% as compared with that for the same period last year. The increase in our selling and distribution expenses was mainly attributable to the increase in transportation costs as a result of the increase in sales volume of the Group in 2016. In addition, the increase in selling and distribution expenses was attributable to the increase in the number of marketing staff as well as the resulting increment of average salary of relevant staff.

## **Administrative expenses**

For the year ended 31 December 2016, our total administrative expenses amounted to approximately RMB54.3 million, representing an increase of approximately RMB24.3 million or 81.05% as compared with that of the same period last year. The increase in administrative expenses was mainly attributable to the increase in costs of relevant human resources as a result of the expansion of the Group's business scale, as well as the increase of relevant expenses of Hengshi Egypt.

## **Research expenditure**

For the year ended 31 December 2016, our total research expenditure amounted to approximately RMB37.4 million, representing an increase of approximately RMB4.7 million or 14.39% as compared with that of the same period last year, accounting for 3.02% (2015: 3.26%) of our revenue. During the Reporting Period, the increase in research expenditure was mainly attributable to attracting new customers of wind turbine blades and satisfying new requirements of new technological specifications of customers. The increase in the number of research staff, newly purchased research and development equipment, consumption of new product materials for certification, and testing fee were due to more frequent research activities in 2016, which led to the increase in research expenditure.

## **Finance costs**

For the year ended 31 December 2016, finance costs of the Group amounted to approximately RMB5.8 million, representing a year-on-year decrease of approximately RMB15.8 million, mainly due to the decreasing average balance of bank borrowings and the decreasing average interests of bank loans.

## **Income tax expense**

For the year ended 31 December 2016, the income tax expense of the Group amounted to approximately RMB59.4 million, representing a year-on-year increase of approximately RMB31.2 million, mainly due to the increase in profit before tax resulting from the increase in results.

## **Profit of the year**

In view of the reasons above, profit of the year for the year ended 31 December 2016 amounted to approximately RMB252.8 million, representing a year-on-year increase of approximately RMB71.3 million or 39.31%.

## **Liquidity, finance resources and capital structure**

As at 31 December 2016, the balance of cash and cash equivalents (including pledged bank deposits) amounted to approximately RMB403.0 million, representing a year-on-year decrease of RMB208.3 million. Short-term bank borrowings amounted to RMB50.0 million, representing a year-on-year decrease of RMB350.0 million, and the borrowing rate was 4.35%.

## **Inventories**

As at 31 December 2016, inventories amounted to approximately RMB126.1 million, representing a year-on-year increase of approximately RMB29.4 million or 30.44%. The increase in inventories was mainly attributable to the corresponding increase in inventory arising from the expansion of production scale and the increase of sales of the Group.

## **Trade receivables and other receivables**

As at 31 December 2016, trade receivables and other receivables amounted to approximately RMB386.7 million, representing an increase of approximately RMB31.8 million or 8.97% as compared with that of 2015. The increase in trade receivables is attributable to the increase in sales volume resulting in the increase in trade receivables resulting from the increase in sales volume.

## **Trade payables and other payables**

As at 31 December 2016, trade payables and other payables amounted to approximately RMB34.8 million, representing a decrease of approximately RMB12.2 million or 26.05% as compared with that of 2015. The decrease in trade payables was mainly attributable to lesser machine equipment was purchased by the Group than in 2015.

## **Exchange rate risk**

Exchange rate risk is mainly attributable to Group's bank borrowings, sales and purchases, and the trade receivables, trade payables, cash balance and loans which are denominated in currencies other than RMB. We generate exchange rate risk against US dollars, Euros, Hong Kong dollars and Egyptian pounds. The Directors and management of the Company continue to monitor relevant exchanges rate risks, and adopt appropriate currency hedging policies in a timely manner.

## **Capital commitments and contingent liabilities**

As at 31 December 2016, the capital commitments of the Group amounted to approximately RMB41.4 million, representing a decrease of approximately RMB33.6 million as compared with that of 2015. The major capital commitments were arising from the capital expenses for Hengshi Phase IV Expansion Plan and Egypt Phase II Expansion Plan.

As at 31 December 2016, the Group did not have any material contingent liabilities.

## **Pledged assets**

As at 31 December 2016, the property, plant and equipment of the Group with a carrying value of approximately RMB124.6 million were pledged to banks to secure bank borrowings.

## **Gearing ratio**

As at 31 December 2016, the Group's gearing ratio was approximately 3.13% (2015: 23.67%), which is calculated as the total borrowings divided by total assets multiplied by 100%.

## **Policies for employment and remuneration**

As at 31 December 2016, the Group had 1,029 employees in total, representing a decrease of 57 employees as compared with that of 2015. The decrease in number of employees was mainly due to the increase in Group's production efficiency which led to the lay-off of certain production staff. The remuneration policy of the Group for employees was set up by the Board based on their experience, qualification and responsibility. Other employee benefits include Housing Provident Funds, and social insurances, etc.

## **BUSINESS OUTLOOK**

### **1. Overall trend of the development of the industry**

With the increasing awareness of issues such as energy security, ecology and environment, and climate change around the world, accelerating the development of wind power has become the general consensus and concerted action of the international community to promote the transformation of energy and cope with global climate change. It mainly shows in:

#### *(1) Wind power has achieved a large-scale application globally*

According to the statistics from "Wind Power Development under '13th Five-Year Plan'" (《風電發展「十三五」》) published by NEA, the global total installed capacity of wind power achieved 432 million kilowatt at the end of 2015, covering more than 100 countries and regions. During the "12th Five-Year Plan", the global newly installed capacity of wind power increased 238 million kilowatt, representing an annual increase of 17%, which represents the largest increase among the new energy generation technologies.

- (2) *Wind power has become an integral part of the new electricity supply in some countries*

Wind power accounted for 42%, 19% and 13% of electricity consumption in Denmark, Spain and Germany, respectively in 2015. The U.S. has proposed that 20% of the electricity consumption will be supplied by wind power by 2030. To achieve the objective that renewable energy development projects should be in a higher proportion by 2050, Denmark, Germany and other countries have made development of wind power as a core measure.

- (3) *The economy of the wind power development and utilization significantly improved*

With the constant improvement of global wind power development and utilization technology and the continuous expansion in the scale of application worldwide, the development and utilization costs of wind power has decreased by about 30% in the past five years. In the PRC, the whole industry chain of wind power has basically achieved localization. The concentration of wind power manufacturing industry has been significantly improved. The number of manufacturing companies has gradually been reduced from over 80 in the early period of the “12th Five-Year Plan” to about 20, and a number of companies are among the world’s top 10. In particular, low wind speed wind power technology has made a breakthrough and is widely used in the mid-eastern and southern regions. The breakthrough of some technical problems, which have made wind turbine adapting to high altitude, low temperature, frozen and other special environments, have caused a substantial increase in the amount of developable wind power resources in the PRC. Wind power is gradually showing a stronger economy.

Looking ahead, despite the global political turmoil, the constant occurrence of the “black swan” incidents, the rise of trade protectionism and other signs showing that the global economy is still facing a lot of uncertainties, and its recovery is still weak, it is foreseeable that the development of wind energy is still one of the most important initiatives in the world to adjust the energy structure, tackle climate change, Wind energy remains one of the new energy resources with strong support for development.

In the PRC, new energy industry, such as wind power, was listed in the seven national strategic emerging industries in 2015, and its development has been raised to the level of a national strategy. It is expected that the development of new energy sources such as wind energy will still gain greater policy support during the “13th Five-Year Plan” period, and the future potential and room for development remains huge.

While the development of wind power market is becoming mature, we also note that some new changes are happening, and will happen in the wind power market: (1) the mergers and acquisitions between wind blade and turbine manufacturers and the increase of industry concentration because of wind power industry chain integration that will be the main development trend of future wind power industry. It may bring impact and changes to the operation structure of the international wind power market, which has developed and operated stably and smoothly under the policy support over a long period of time; (2) market competition is increasing, which was mainly reflected in the

price competition pressure brought by the competition in the terminal power generation market and the competition in all aspects including quality, technology, research and development, branding and scale, while the competitive strengths of the industry leaders are further depicted; (3) offshore wind power market and the low wind speed market will be further developed and the market growth pace will accelerate; and (4) the gradual adjustment of electricity prices for the PRC's onshore wind power tariff and the weakening of the support from relevant policies have made the PRC's wind power industry becoming more rational after experiencing rapid development in a short period. The future development of the PRC's wind power industry will enter into a stage that is focusing more on efficiency and quality.

## 2. Development strategies

Devoting to be the leading manufacturing enterprise of wind power base materials and facing the unprecedented opportunity of new energy development, the Company will capitalize its leading position in the industry, continue to consolidate the business advantages in respect of the research and development, manufacturing, sales and services of fiberglass fabrics used in wind turbine blades, while stepping up the research and development of production of fiberglass fabrics used in blades with high megawatts which have potential development values. As always, we insist on following the international development direction, further internationalise our technology, talents and capitals, so as to contribute to the development of new energy industry and bring more solid returns to the shareholders.

## 3. Operating plans and major targets

### (1) Market

**Overseas market:** We fully utilize international market resources that the Group has continuously developed and carefully maintained over the years and continues to solidify and strengthen the cooperation with the existing quality customers to increase their confidence and satisfaction; thoroughly expand the scope of cooperation with new customers, excavate the cooperation space with these customers to continuously increase the supply proportion to them. Besides, We continuously promote the Group's global supply chain layout and firmly maintain the Group's status as the top major supplier in the overseas market.

**Domestic market:** Due to the impact of "Rush to Install Wave" in the domestic market in 2015, the rapid increase of industry concentration and the gradual adjustment of the pricing policy of wind power, the market is at the adjustment stage at the moment. Because of the intensified market competition, we should constantly adjust and optimize the domestic customer structure and strengthen the control and prevention of credit risk. While focusing on the development of wind power market, we should also take into account the marketing and new product development of non-wind power composite materials market, so as to foster new profit growth point.

(2) *Overseas subsidiaries*

In 2017, the Company will continue to strengthen its guidance and support to the overseas subsidiaries' operations and the progress of construction projects, and coordinate and manage the procurement and financial arrangements, production organization management, production planning and sales, product quality control and other aspects of overseas subsidiaries to ensure that the production, operation and management of overseas subsidiaries are conducted in a smooth and orderly manner.

(3) *Quality*

In 2017, the Company will steadily improve product quality and further strengthen the concept of “the product quality and corporate reputation are the life of an enterprise”, implement the quality control system among employees during the whole process, enhance the quality control assessment, to ensure that product quality risks can be effectively identified and controlled at the links of raw material procurement, design and production, and prevent all types of quality risks by severe disciplinary actions.

(4) *Production*

In 2017, we will further transform, upgrade and optimize the production equipment and process technologies. We will also increase the management innovation efforts, to further step up the production organization management in areas including automation, informationization, intellectualization and refinement, through the ongoing exploration of changing innovative mind-map, optimizing operating methods and implementing refinement management, so as to improve efficiency and reduce cost.

## **FINAL DIVIDENDS**

The Board recommends to distribute a final dividend in respect of the year ended 31 December 2016 at RMB0.0885 (2015: RMB0.0546) per share, which is subject to the approval from the shareholders of the Company (the “**Shareholders**”) at the forthcoming annual general meeting to be held on Monday, 22 May 2017 (the “**AGM**”) and is expected to be distributed on Monday, 12 June 2017 to the Shareholders whose names appeared on the register of members of the Company on Wednesday, 31 May 2017.

## **CLOSURE OF REGISTER OF MEMBERS**

In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Friday, 12 May 2017 to Monday, 22 May 2017, both days inclusive.

In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 11 May 2017.

In order to determine the identity of shareholders who are entitled to the final dividend, the register of members of the Company will also be closed from Friday, 26 May 2017 to Wednesday, 31 May 2017, both days inclusive. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 25 May 2017.

## USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The net proceeds from the listing, after deducting the underwriting fees and related expenses, amounted to approximately RMB400.4 million, which will be used in accordance with the manners stated in the prospectus of the Company dated 8 December 2015 (the "Prospectus") and the announcement headed "Change in Use of Proceeds" of the Company dated 19 October 2016 (the "Announcement").

The table below sets out the detailed items of the use of proceeds from the initial public offering as at 31 December 2016:

Use	Proposed use of the proceeds from the initial public offering as stated in the Prospectus and the Announcement (RMB million) approximately	Amounts utilized of the proceeds from the initial public offering as at 31 December 2016 (RMB million) approximately	Unutilized balance of the proceeds from the initial public offering as at 31 December 2016 (RMB million) approximately
Hengshi Phase IV expansion plan, as to:	70.2	43.2	27.0
Construction of production facilities	27.3	18.1	9.2
Purchase of manufacturing equipment and auxiliary equipment	42.9	25.1	17.8
U.S. expansion plan	60.0	0	60.0
Repayment of bank loans	170.1	120.1	50.0
Purchase of property	60.1	60.1	0
Working capital	40.0	40.0	0
<b>Total</b>	<b>400.4</b>	<b>263.4</b>	<b>137.0</b>

## **THE CODE ON CORPORATE GOVERNANCE**

The Company strives to maintain high standards of corporate governance in order to safeguard the interests of Shareholders and enhance the corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on the Stock Exchange as its own code of corporate governance. For the year ended 31 December 2016, the Company had complied with the provisions 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 (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions conducted by Directors. After making specific enquires to all Directors, each of the Directors have confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 December 2016.

## **PURCHASE, SALES OR REDEMPTION OF COMPANY’S LISTED SECURITIES**

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

## **REVIEW OF AUDIT COMMITTEE**

The Company’s audit committee has reviewed the accounting principles and practices adopted by the Group with the management of the Company and the Company’s external auditor, and has examined the annual results of the Group for the year ended 31 December 2016. Deloitte Touche Tohmatsu, the external auditor of the Group, has agreed with the figures in the preliminary results announcement of the Group for the year ended 31 December 2016.

## **EVENT AFTER THE REPORTING PERIOD**

Hengshi USA Wind Power Materials Corporation, an indirect wholly-owned subsidiary of the Company, was officially organized on 1 January 2017 in South Carolina, the U.S., and the State of South Carolina issued the Certificate of Existence on 6 February 2017. Please refer to the Company’s announcement dated 7 February 2017.

**PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT FOR THE YEAR 2016 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinahengshi.com.cn](http://www.chinahengshi.com.cn)). The annual report for the year 2016 containing all information required by the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

By order of the Board  
**China Hengshi Foundation Company Limited**  
**Zhang Yuqiang**  
*Chairman*

Hong Kong, 20 March 2017

*As at the date of this announcement, the Directors are:*

*Non-executive Directors:* Mr. ZHANG Yuqiang (Chairman), Mr. ZHANG Jiankan,  
Mr. TANG Hsin-hua, Mr. WANG Yuan

*Executive Directors:* Mr. ZHOU Tingcai, Ms. HUANG Junjun

*Independent non-executive Directors:* Mr. FANG Xianbai, Mr. PAN Fei, Mr. CHEN Zhijie