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

2016
ANNUAL REPORT

Contents

Corporate Profile

China Hengshi Foundation Company Limited (the "**Company**") and its subsidiaries ("**Hengshi**", the "**Group**" or "**we**") 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 had the largest exporting volume of fiberglass fabrics used in wind turbine blades by tonnage among all PRC-based companies.

We offered five types of fiberglass fabrics: multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. Among these products, multi-axial fabrics and uni-directional fabrics are our key products, most of which are 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 the recent three years, 83.50%, 88.80% and 84.35% of the revenue of the Company was generated from wind power related sectors.

As of now, the Company owned three production bases in Zhejiang of China, Suez of Egypt and the State of South Carolina of the United States (under construction). Its products are sold to approximately twenty countries and areas in Europe, America, Middle East and Southeast Asia and over twenty provinces in mainland China. Its customers are well-known manufacturers of wind turbines and blades worldwide and in China, including Vestas, Siemens, LM Wind Power, TPI Composites Inc., Sinomatech Wind Power Blade Co., Ltd. (中材科技風電葉片股份有限公司) and Guangdong Ming Yang Wind Power Industry Group Co., Ltd. (廣東明陽風電產業集團有限公司). Besides, its brands enjoy a relatively high reputation and credibility in the domestic and overseas markets.

In 2016, with its leading position in the industry and the proper capture of market opportunities by the management, the Group reached a record high performance in terms of sales volume, sales revenue and net profit, while achieving a significant outcome of the development of new customers and new products, steady promotion 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.

Adhering to the goal of "Devoting to be the world leading manufacturing enterprise of fabrics for wind energy industry" and the core ideology of "conduct, innovation, responsibility, learning, enthusiasm", the Company has been continuously making efforts and improving to create more value for its customers and partners.

Corporate Information

BOARD OF DIRECTORS

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

AUDIT COMMITTEE

Mr. FANG Xianbai *(Chairman)*
Mr. WANG Yuan
Mr. PAN Fei

REMUNERATION COMMITTEE

Mr. FANG Xianbai *(Chairman)*
Mr. ZHANG Jiankan
Mr. PAN Fei

NOMINATION COMMITTEE

Mr. ZHANG Yuqiang *(Chairman)*
Mr. FANG Xianbai
Mr. CHEN Zhijie

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

Mr. YIN Hang
Ms. HUANG Junjun

REGISTERED OFFICE

190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

HEADQUARTERS

No. 1 Guang Yun South Road
Tongxiang Economic Development Zone
Tongxiang, Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36/F, Tower Two, Times Square
1 Matheson Street, Causeway Bay
Hong Kong

COMPANY WEBSITE

www.chinahengshi.com.cn

STOCK CODE

1197

AUDITOR

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

COMPLIANCE ADVISER

Guotai Junan Capital Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

LEGAL ADVISER

Stevenson, Wong & Co.
4/F, 5/F & 1602, Central Tower
28 Queen's Road Central
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Intertrust Corporate Services (Cayman) Limited
190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKS

Bank of China Limited
Tongxiang Branch
No. 44 Yuanlin Road
Tongxiang, Zhejiang Province
PRC

China Merchants Bank Co., Limited
Jiaxing Tongxiang Branch
No. 122 Zhenxing East Road
Tongxiang, Zhejiang Province
PRC

LISTING DATE

21 December 2015

Five-Year Financial and Operating Highlights

The table below set outs the five-year financial highlights of the Company for the periods indicated:

Year ended 31 December	**2016** *RMB'000*	2015 *RMB'000*	2014 *RMB'000*	2013 *RMB'000*	2012 *RMB'000*
Operating results					
Revenue	**1,236,439**	1,002,901	678,600	405,393	440,963
Gross profit	**420,721**	298,521	190,659	84,441	104,977
Research expenditure	**(37,392)**	(32,688)	(21,004)	(13,310)	(15,284)
Finance costs	**(5,784)**	(21,590)	(25,507)	(34,174)	(30,086)
Profit before tax	**312,193**	209,661	147,479	83,454	77,453
Profit for the year	**252,833**	181,492	131,734	78,110	71,612
Total comprehensive income for the year	**210,039**	180,951	131,666	78,110	71,612
Profit for the year attributable to:					
Owners of the Company	**257,787**	181,977	131,789	78,110	71,612
Non-controlling interests	**(4,954)**	(485)	(55)	–	–
	252,833	181,492	131,734	78,110	71,612
Total comprehensive income for the year attributable to:					
Owners of the Company	**213,978**	181,490	131,728	78,110	71,612
Non-controlling interests	**(3,939)**	(539)	(62)	–	–
	210,039	180,951	131,666	78,110	71,612

Five-Year Financial and Operating Highlights *(Continued)*

As at 31 December	**2016** **RMB'000**	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000
Assets and liabilities:					
Non-current assets	**629,863**	589,026	490,653	352,406	382,680
Current assets	**967,496**	1,100,747	634,326	731,734	700,716
Total assets	**1,597,359**	1,689,773	1,124,979	1,084,140	1,083,396
Total liabilities	**390,275**	638,135	575,070	667,419	677,706
Total equity	**1,207,084**	1,051,638	549,909	416,721	405,690

Chairman's Statement

Dear Shareholders,

On behalf of the board of the Company (the "**Board**"), I am pleased to present the annual report of the Company (the "**Annual Report**") for the year ended 31 December 2016 (the "**Reporting Period**").

As we recall, the overall recovery of the global economy was still weak in 2016. A series of Black Swan events, such as "Brexit", "Trump's election as US president" and "Italian referendum", have brought many uncertainties to the global economic situation. As we look back to China, 2016 is the first year of "13th Five-Year Plan". Despite many uncertainties, the Chinese economy is still showing the development trend of "a slower but stable performance with good momentum for growth" driven by a series of "supply-side structural reforms", and such trend is represented by the overall transformation and upgrading of traditional manufacturing industry, the shifting of emphasis of the economic development way to higher efficiency and quality, the increasingly strengthening of environmental protection and ecological constraints as well as the commencement of transformation period of energy development. According to preliminary accounting data of the National Bureau of Statistics, China's GDP growth rate was 6.7% in 2016 and remained a development trend at medium-to high speed.

For the Company, 2016 also marked a year of outstanding achievements. The Company has made significant progress in various aspects, such as operating results, market development, adjustment of structure, operation and management and international development.

2016 is the first anniversary of the Company's successful listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Based on this international capital platform, on the one hand, we continuously improve the systematicness, scientificalness and transparency of corporate governance in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and other related systems and laws and regulations, to build a good corporate governance structure and institutional mechanisms; on the other hand, adhering to the attitude of responsibility towards shareholders, we use the proceeds from the initial public offering as planned by adjusting to changes in market demand and continue rewarding shareholders with bonus against the background of steady growth in profit so as to effectively guarantee the investors' interest and investment return. The Board proposed to distribute a total dividend of RMB88.5 million for the year ended 31 December 2016, equivalent to RMB0.0885 per share, representing an increase of approximately 62.09% from 2015.

In 2016, following the strategic direction in relation to the rapid development of new energy (including wind power) industry around the world, the Group continues to provide high quality fiberglass fabrics used in wind turbine blades to its customers, actively promotes the research and development of fiberglass fabrics used in wind turbine blades and the optimization of relevant production process, and strengthens the development of wind power business. Benefitted from the advantages and leading position of the Company in overseas market and the grasp of the market opportunities by the management, the Company extended the momentum of the past strong growth, and its sales volume, sales revenue and profit grew significantly and reached a record high. Throughout the year, the sales volume increased by 16.55% as compared with that of last year; sales revenue amounted to approximately RMB1,236.4 million, representing an increase of 23.29% as compared with that of last year; of which, sales revenue from related wind power products amounted to approximately RMB1,042.9 million, representing an increase of 17.11% as compared with that of last year; gross profit amounted to approximately RMB420.7 million, representing an increase of 40.94% as compared with that of last year; net profit amounted to approximately RMB252.8 million, representing an increase of 39.31% as compared with that of last year.

While guaranteeing the health development of existing wind energy business, the Group has actively expanded the market share of fiberglass fabrics in non-wind power application sectors, and successfully developed the application of fiberglass fabrics in areas such as automotive lightweighting and etc. In 2016, the sales revenue of products used in non-wind sector recorded an increase of 72.15% as compared with that of last year. In addition, the Group also actively tracked the development trend of new materials including carbon fiber and market trends and development of other fiberglass fabrics suppliers, and will seek new business development and potential investment cooperation opportunities with prudent and pragmatic strategies.

During 2016, the Group continued to adhere to the international development strategy by continously expanding the scale of its overseas production base. The Egypt Phase II Expansion Plan is in an orderly progress and Hengshi USA Wind Power Materials Corporation was established in USA in January 2017, which marked the formal implementation of U.S. Expansion Plan. Meanwhile, Hengshi Egypt Fiberglass Fabrics S.A.E. ("**Hengshi Egypt**") has carried forward the testing and certification work for European customers in a comprehensive manner, and has currently passed the Vestas (being the internationally-renowned wind turbine manufacturer) certification and successfully entered the stage of bulk production. Hengshi Egypt simultaneously promotes the quality system and management system construction, passing the "Three Systems" certification during the year and successfully passing a number of customer's reviews.

The international development strategy of the Group has unparalleled competitive advantages over other domestic fiberglass fabrics suppliers, and is the inevitable choice for the Group to keep long-term exploration in the international market as well as keep long-term cooperation relationship with internationally-renowned wind turbine blade and wind turbine manufacturers such as Vestas and Siemens. The construction of overseas production base will facilitate the Group to be more closer to the market and customers as well as be more capable in providing high-quality products and services to overseas customers by the way of "supply the overseas market with overseas plant", thus increasing the Group's market share in overseas markets and brand influence.

The Group has been insisting on focusing on customers and closely following the market demand. It has been dedicated to researching, developing and manufacturing fiberglass fabrics that are customised to various technical specifications required by customers. By optimizing the product and market structure, enhancing quality management and cost control, and increasing investment in research and development, it continuously enhances the core competitiveness and brand influence of the Group, so as to continuously lead the development of the fiberglass fabric manufacturing industry for wind power.

As achievement belongs to the past, we will still have to work harder in the future and endeavour to fulfill the promising development in the new year. Looking forward to 2017 and beyond, the Company will continue to seize the opportunities of wind energy market development and conscientiously implement each strategic plan of the Group with firm determination and initial intention. We will continue to steadily promote the project construction, continuously optimise strategic layout, further integrate internal and external resources, enhance management standards and technological innovation standards, and improve the quality and efficiency of development to achieve the sustainable development of "larger assets scale, stronger profitability, higher market share and higher market status". Leveraging on such measures, we will become the world leading manufacturing enterprise of fabrics for wind energy industry and continue to bring sustainable, stable and fruitful returns to shareholders.

Finally, on behalf of the Board, I would like to express my sincere gratitude to the trust and support of our shareholders and business partners and to express my heartfelt gratitude to the management team and the staff for their hard work and dedication.

Yours sincerely,

ZHANG Yuqiang
Chairman of the Board

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 486.7GW (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 13,926MW 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), 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 optimisization 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 RMB7.515 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, Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. ("**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 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 certificate) 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 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 approximately 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 mega-watts 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.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS

Mr. ZHANG Yuqiang (張毓強), aged 62, is the chairman of the Board and a non-executive Director. Mr. ZHANG was appointed as a Director of the Company (the "**Director**") in February 2015 and is primarily responsible for formulating the overall development strategies and business plans of the Group. Mr. ZHANG is also the chairman of Zhenshi Holding Group Co., Ltd. ("**Zhenshi**"), the president of China Jushi Co., Ltd. ("**China Jushi**") and the chairman and a director of Jushi Group Co., Ltd. ("**Jushi Group**"). Mr. ZHANG is also the vice chairman of China Building Materials Federation (中國建築材料聯合會) and China Composites Industry Association (中國複合材料工業協會) as well as the vice chairman of China Fiberglass Industry Association. From August 1971 to June 1989, Mr. ZHANG had worked as a staff worker, workshop manager, chief of the production unit, vice director and director of Tongxiang Fiberglass Factory. Mr. ZHANG founded Tongxiang Zhenshi Company Ltd., the predecessor of Zhenshi in June 1989 and has been acting as the chairman ever since. Mr. ZHANG founded Jushi Group Co., Ltd in March 1993 and has been acting as the chairman ever since. Since March 1999, Mr. ZHANG has been acting as the vice chairman, general manager and chief executive officer of China Jushi, previously known as China Fiberglass Co., Ltd. and China Chemical Building Materials Company Ltd. Mr. ZHANG has over 40 years working experience in the fiberglass industry. Under the guidance of Mr. ZHANG, Jushi Group has become one of the largest production entities in the world. Mr. ZHANG obtained the qualification certificate of senior engineer (professor level) conferred by China National Building Material Company Ltd. (中國建築材料集團公司) in December 2008. Mr. ZHANG has received numerous awards and enjoyed special government allowance from the State Council for his outstanding contribution to the building materials industry. In 2009, Mr. ZHANG was voted by Forbes as the best chief executive officer of listed companies in China. Mr. ZHANG participated the MBA courses held by Zhejiang University of Technology and received a programme certificate in December 2002. Mr. ZHANG Yuqiang is the father of another non-executive Director of the Company, Mr. ZHANG Jiankan.

Mr. ZHANG Jiankan (張健侃), aged 34, is a non-executive Director. Mr. ZHANG was appointed as the Director in February 2015 and participates in formulating the strategic development plans of the Group. Mr. ZHANG has also been the chairman of the board of directors of Hengshi Fiberglass since September 2013. Mr. ZHANG joined Zhenshi in January 2009 and has been acting as the assistant to the president ever since. Mr. Zhang had acted as project manager at Beijing Hony Future Investment Advisor Ltd. (北京弘毅遠方投資顧問有限公司) from January 2008 to December 2008. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang, a non-executive director of the Company,.

Mr. TANG Hsin-hua (唐興華), aged 64, is a non-executive Director. Mr. TANG was appointed as the Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. TANG is also the chairman of the board of directors of Jushi USA Fiberglass Co., Ltd. and the supervisor of China Jushi. Mr. TANG has also been a director of Hengshi Fiberglass since January 2004. From 1996 to 2003, Mr. TANG had acted as the chief executive officer of United Suntech Craft Inc. From 1995 to 2010, Mr TANG had also acted as the chief executive officer of Gibson Enterprises Inc. Mr. TANG obtained a bachelor's degree in urban planning from National Chengchi University (台灣政治大學) in June 1976.

Mr. WANG Yuan (王源), aged 39, is a non-executive Director. Mr. WANG was appointed as the Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. WANG has also been the chairman of the board of directors of Zhenshi Group's Indonesian branch since 2011 and the vice president of Zhenshi since 2010. From May 2001 to August 2003, Mr. WANG had worked as the project manager at Beijing Hollyhigh International Capital Consulting Co., Ltd.. From September 2003 to August 2007, Mr. WANG had acted as deputy minister in the strategic investment department of Jushi Group. From 2007 to 2009, Mr. WANG had acted as the assistant to the president of Zhenshi. Mr. WANG obtained a bachelor's degree in economics from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in Nanjing, China, in June 2000 and a MBA degree from University of International Business and Economics (中國北京對外經濟貿易大學), in Beijing, China, in June 2007.

EXECUTIVE DIRECTORS

Mr. ZHOU Tingcai (周廷才), aged 51, is an executive Director and the general manager. Mr. ZHOU was appointed as the Director in May 2015 and the general manager in November 2014 and is primarily responsible for overall operations of the Group. Mr. ZHOU joined the Group in November 2014 and has been acting as the general manager ever since. From September 1989 to October 1997, Mr. ZHOU had worked as the workshop manager, project manager and project engineer of Lanzhou Plate Glass Factory (蘭州平板玻璃廠). From October 1997 to February 2008, Mr. ZHOU had received training and held different positions in various departments of Saint-Gobain China. From February 2008 to July 2008, Mr. ZHOU had acted as the deputy general manager of Jushi Group Chengdu Branch (巨石集團成都公司). From August 2008 to November 2014, Mr. ZHOU had acted as deputy general manager and general manager of Kunshan Huafeng Composite Material Co., Ltd. (昆山華風複合材料有限公司). Mr. ZHOU joined Kunshan Huafeng Wind-Power Engineering Co., Ltd. (昆山華風風電科技有限公司) as deputy general manager and general manager responsible for developing and managing industrial chain from April 2010 to November 2014. Mr. ZHOU obtained a bachelor's degree in material engineering from Wuhan University of Technology (中國武漢工業大學) in Wuhan, China, in June 1989.

Ms. HUANG Junjun (黃鈞筠), aged 37, is an executive Director and the deputy general manager. Ms. HUANG was appointed as the Director in May 2015. She had been a deputy manager of Hengshi Fiberglass since 2008 with primary responsibilities in sales and foreign trade, and has become a deputy general manager since January 2014. From July 2003 to October 2004, Ms. HUANG had worked as a president office staff of Jushi Group. From 2004 to 2006, Ms. HUANG had been an executive in the general manager's office of Jucheng Real Estate Development Co., Ltd. (巨成置業有限公司). From March 2008 to August 2008, Ms. HUANG had worked as a marketing specialist in Jushi Group. From 2010 to 2013, in addition to her responsibilities at Hengshi Fiberglass, Ms. HUANG had also been the assistant to the general manager in Zhejiang Meishi New Materials Company Ltd. (浙江美石新材料有限公司). She obtained a bachelor's degree in finance from Hubei University (湖北大學) in Wuhan, China, in June 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. FANG Xianbai (方賢柏), aged 79, is an independent non-executive Director. Mr. FANG was appointed as the Director in May 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. FANG has been an evaluation expert for technology innovation award granted by China Building Materials Industrial Association (中國建築材料工業協會) and China Jiye Jiancai Labour Union National Committee (中國機冶建材工會全國委員會). From 1964 to 1998, Mr. FANG had worked in Nanjing Fiberglass R&D Institute (南京玻璃纖維研究設計院) as vice chief engineer and senior engineer (professor level). Mr. FANG has enjoyed special government allowance from the State Council since October 1992. Mr. FANG was awarded as senior engineer by State Construction Materials Industry Administration (國家建築材料工業局) in December 1987. From January 1995 to December 2009, Mr. FANG had worked in Jushi Group as chief engineer and senior engineer (professor level) responsible for the management, development and innovation of fiberglass technology. Mr. FANG obtained a diploma in Shenyang Construction Specialised Institution (中國沈陽市沈陽建築工業專科學校) in Shenyang, China, in July 1961.

Mr. CHEN Zhijie (陳志傑), aged 45, is an independent non-executive Director. Mr. CHEN was appointed as the Director in May 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. CHEN has been the general manager of Huatai Ruilian Fund Management Company (華泰瑞聯基金管理公司), a subsidiary of Huatai Securities Company Ltd. (華泰證券股份有限公司), and the managing partner of Huatai Ruilian M&A Fund (華泰瑞聯併購基金) since April 2014. Mr. CHEN has also acted as the director of Sunbird Yacht Co., Ltd. (太陽鳥遊艇股份公司), a company listed on the Shenzhen Stock Exchange, from September 2014 to December 2015. From October 2004 to April 2014, Mr. CHEN had acted as the vice general manager and general manager of the department of merger and acquisition and private equity and the managing director of the investment banking department at Huatai United Securities Company Ltd.. Mr. CHEN obtained a MBA degree from Tsinghua University (中國北京清華大學) in Beijing, China, in June 2001.

Mr. PAN Fei (潘飛), aged 61, is an independent non-executive Director. Mr. PAN was appointed as the Director in May 2015 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. PAN has been the professor of accounting and deputy dean of the school of accountancy in Shanghai University of Finance and Economics (上海財經大學) since July 2000. Mr. PAN has been an independent director of Bright Dairy & Food Co., Ltd. (光明乳業股份有限公司), a company listed on the Shanghai Stock Exchange, from July 2009 to March 2016, an independent director of Shanghai M&G Stationery Inc. (上海晨光文具股份有限公司), a company listed on the Shanghai Stock Exchange, from June 2014 to March 2016 and an independent director of Universal Scientific Industrial (Shanghai) Co., Ltd. (環旭電子股份有限公司), a company listed on the Shanghai Stock Exchange, since March 2011. Mr. PAN was an independent director of Shanghai Bailian Group Co., Ltd. (上海百聯集團股份有限公司), a company listed on the Shanghai Stock Exchange, from June 2010 to March 2015, an independent director of Shanghai Wanye Enterprises Co., Ltd. (上海萬業企業股份有限公司), a company listed on the Shanghai Stock Exchange, from May 2012 to July 2014, an independent non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (stock code: 1349), a company listed on the Stock Exchange, from June 2003 to May 2014 and an independent non-executive director of Orient Securities Company Limited (東方證券股份有限公司) (stock code: 3958), a company listed both on the Shanghai Stock Exchange and the Stock Exchange since June 2015. From March 1983 to June 1995 and from July 1995 to June 2000, Mr. PAN had been a lecturer of accounting and an associate professor of accounting in Shanghai University of Finance and Economics. Mr. PAN obtained a bachelor's degree, a master's degree and a doctoral degree in accounting from Shanghai University of Finance and Economics in January 1983, March 1991 and July 1998 respectively, in Shanghai, China.

SENIOR MANAGEMENT

Mr. PAN Chunhong (潘春紅), aged 44, is the executive general manager. Mr. PAN was appointed as the executive general manager in January 2016 and is responsible for production and quality management of the Group. From July 1999 to January 2001, Mr. PAN had worked as a section member of the corporate management department in Jushi Group. From January 2001 to December 2004, Mr. PAN had worked as a section chief of the management and control department in Jushi Group. From January 2005 to December 2006, Mr. PAN had worked as a deputy minister of quality control department in Jushi Group. From January 2007 to April 2008, Mr. PAN had worked as a vice director of secondary branch factory of the Jushi Group. From April 2008 to December 2015, Mr. PAN had worked as the factory manager of the secondary branch factory of the Jushi Group. Mr. PAN obtained a degree in securities investment and management from Zhejiang Economic College (浙江經濟高等專科學校), Jiaxing, China, in July 1999. In July 2002, Mr. PAN obtained the Certificate of a master in business administration from Zhejiang University of Technology (浙江工業大學), Hangzhou, China.

Mr. LI Hui (李輝), aged 38, is the deputy general manager. Mr. LI was appointed as the deputy general manager of the Company in January 2009 and is primarily responsible for comprehensive administrative management and quality control. Mr. LI joined the Group in January 2007. From 1998 to 2002, Mr. LI had worked as depositary director in Huludao Branch of the Bank of China, Liaoning, China. From 2002 to 2004, Mr. LI had worked as the manager of the customer relationship department in Wuxi Union Pay Card Service Company (無錫市銀聯卡專業服務公司). From 2007 to 2009, Mr. LI had acted as the assistant to the general manager of Hengshi Fiberglass. Mr. LI obtained a bachelor's degree in economic law (self-study) in Liaoning University, Shenyang, China (中國瀋陽市遼寧大學), in December 1999.

Mr. RAO Chaofu (饒朝富), aged 43, is the chief financial officer of the Group. Mr. RAO was appointed as the chief financial officer of the Company in May 2015 and is responsible for financial affairs of the Group. Mr. RAO has been the vice minister of the accounting department of Zhenshi and, among other things, has been responsible for overseeing financial affairs relating to our Group since 2010. From 1997 to 2006, Mr. RAO had worked as an accountant and the chief financial officer of Tongxiang Gaoke Electricity Co., Ltd., a former subsidiary of Zhenshi (振石前附屬公司桐鄉高科電子有限公司). From 2006 to 2008, Mr. RAO had acted as the chief financial officer of Shenzhen Yuanshi Rubber Electricity Co., Ltd., a former subsidiary of Zhenshi (振石前附屬公司深圳源石塑料電子有限公司). From 2008 to 2010, Mr. RAO had acted as the group accountant of Zhenshi. Mr. RAO obtained a bachelor degree in accounting from Hangzhou Dianzi Industrial College, Hangzhou, China (中國杭州杭州電子工業學院), in July 1997.

JOINT COMPANY SECRETARIES

Mr. YIN Hang (尹航), was appointed as a joint company secretary of the Company on 7 May 2015. From March 2009 to December 2013, Mr. YIN had acted as the secretary to the chairman of Jushi Group. From January 2011 to December 2012, Mr. YIN had also acted as an investment strategy commissioner of Jushi Group. From January 2014 to April 2015, Mr. YIN had acted as the deputy director of the development strategy department in Zhenshi. Mr. YIN obtained a bachelor degree in marketing from Washington State University, Washington, United States, in July 2008.

Ms. WONG Sau Ping (黃秀萍) is a joint company secretary of the Company. Ms. WONG is a senior manager of the Listing Services Department of TMF Hong Kong Limited (a fellow subsidiary of KCS Hong Kong Limited). She has over 15 years of experience in the company secretarial field. Ms. WONG had worked for one of the four largest international audit firms, where she served large and well-known companies listed on the Stock Exchange. Ms. WONG holds a bachelor degree in business administration and a master degree in professional accounting and information systems. She is an associate member of Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administration in the United Kingdom.

The Board is pleased to present the director's report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2016.

GLOBAL OFFERING

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 February 2015 under the Companies Law, Cap 22 of the Law of the Cayman Islands (the "**Companies Law**"). The shares of the Company (the "**Shares**") were listed on the Stock Exchange on 21 December 2015.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Its subsidiaries have been engaged in research and development, production and sales of various fiberglass fabrics produced in accordance with different technical specification since their establishment. During the Reporting Period, there were no significant changes in the Company's business.

An analysis on the revenue of the Group during the year is set out in note 6 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 83 of this Annual Report.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2016 are set out in note 42 to the consolidated financial statements.

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.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2016 and a discussion on the Group's future business development are provided in the Management Discussion and Analysis on pages 10 to 22 of this Annual Report. An analysis of the Group's performance during the Reporting Period using financial key performance indicators is provided in the Five-Year Financial and Operating Highlights on page 5 to 6 of this Annual Report.

MAJOR RISKS AND UNCERTAINTIES

During the year, the Company reviewed the risks of the Group identified and conducted a relevant assessment. The major risks the Group was exposed to are summarized as below:

Market risks	–	The slowdown in the growth of the PRC and global economy; and the impact on wind power market from the changes in the government policies.
Operating risks	–	The increase in the cost of raw materials; Research and development and the launch of new products not progressing as planned; and the number of purchase orders of products being lower than expected.
Financial risks	–	Credit risks, risks of fluctuations in liquidities, interest rate risks and exchange rate risks.
Overseas market risks	–	Operating risks associated with the expansion of the production capacity of the production base in Egypt and America; and risks associated with the anti-dumping duties imposed on our products by the European Union due to the rising global trade protectionism.

ENVIRONMENTAL POLICIES AND PERFORMANCE

As the world-leading producer and supplier of fiberglass fabrics used in wind turbine blades, the Company attaches great importance to environmental protection. We strictly comply with each of the local regulations in the regions where we conduct production and operation and properly implement various environmental policies regarding our actual situations in production and operation. Before establishing production facilities and expanding production scale, the Company has already obtained all necessary approvals and permits from relevant government authorities. For the environmental policies and performance of the Company, please refer to the section headed "Environmental, Social and Governance Report" in this Annual Report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was established in the Cayman Islands with its principal business conducted in regions such as the mainland China and Egypt, and its Shares are listed on the Stock Exchange. Therefore, our establishment and operation are subject to relevant laws in the Cayman Islands, Egypt, the mainland China and Hong Kong. For the year ended 31 December 2016 and up to the date of this report, we complied with relevant laws and regulations in Cayman Islands, Egypt, mainland China, and Hong Kong. For the compliance with laws and regulations and performance of the Company, please refer to the section headed "Environmental, Social and Governance Report" in this Annual Report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group respects its people. We offer reasonable remunerations to our employees and continuously modify systems such as remunerations and benefits, training, occupational health and safety for the purpose of retaining talents. Reviews and updates will be conducted on a regular basis.

The Group has a good relationship with its customers. To perfect our services, the Group sets up a customer complaint management system, including collection of complaints, analytic research and provision of recommendations for improvement.

The Group has a good relationship with its suppliers and conducts audits on its suppliers in a fair and strict manner every year.

For key relationships between the Company and its employees, customers and suppliers, please refer to the section headed "Environmental, Social and Governance Report" in this Annual Report.

FINANCIAL SUMMARY/FINANCIAL REVIEW

A summary of the operating results, assets and liabilities of the Company for the last five financial years is set out on page 5 of this Annual Report.

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
Total	**400.4**	**263.4**	**137.0**

PRINCIPAL CUSTOMERS AND SUPPLIERS

The transaction amount of the Company for the top five customers for the year 2016 accounted for 55.85% of the operating revenue of the Company for the year 2016, among which, the transaction amount of the single largest customer accounted for 18.37% of the operating revenue of the Company for the year 2016.

The transaction amount of the top five suppliers of the Company for the year 2016 accounted for 89.67% of the procure amount of the Company for the year 2016. The transaction amount of the largest supplier of the Company accounted for 74.96% of the procure amount of the Company for the year 2016.

China Jushi and its subsidiaries ("**China Jushi Group**") and Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd. ("**Yushi International**") are two of the top five suppliers of the Company. As at 31 December 2016, Zhenshi held 15.59% equity interests in China Jushi and Mr. Zhang Yuqiang, the Chairman, non-executive Director and substantial Shareholder, held 70.28% equity interests in Zhenshi. Mr. Zhang Yuqiang was the vice chairman and general manager of China Jushi. Mr. Zhang Jiankan, the non-executive Director, indirectly held 25.23% equity interests in Zhenshi through Tongxiang Wushi Trading Company Limited. In addition, Mr. Tang Hsin-hua, the non-executive Director, was a supervisor of China Jushi and held 0.61% equity interests in China Jushi.

Yushi International is a subsidiary of Zhenshi.

Shanghai Tianshi International Logistics Co., Ltd. ("**Shanghai Tianshi**") is one of the top five suppliers of the Company. Mr. Zhang Jiankan, the non-executive Director, is interested in 70% of the registered capital in Shanghai Tianshi.

Save as disclosed in this Annual Report, during the Reporting Period, none of Directors or any of their close associates or any Shareholders (who to the best knowledge of the Directors held more than 5% interest in the issued share capital of the Company) held any interests in the top five customers and suppliers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Company and the Group as of the year ended 31 December 2016 are set out in note 18 to the consolidated financial statements of this Annual Report.

SHARE CAPITAL

Details of changes in the share capital of the Company during the year are set out in note 33 to the consolidated financial statements of this Annual Report. For the year ended 31 December 2016, there was no issuance of new Shares or bonds by the Company.

RESERVE AND DISTRIBUTABLE RESERVE

Details of changes in the reserve of the Company and the Group for the year 2016 are set out in note 43 to the consolidated financial statements and the consolidated statement of changes in equity on pages 86 to 87, respectively, among which, information on reserve distributable to Shareholders in 2016 is set out in note 43 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Company and the Group as at 31 December 2016 are set out in note 31 to the consolidated financial statements.

DIRECTORS

For the year ended 31 December 2016 and up to the date of this Annual Report, the Board comprises the following Directors:

Non-executive Directors

Mr. Zhang Yuqiang
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

The biographical details of the Directors and senior management are set out in the section headed "Directors and Senior Management Profile" on pages 23 to 27 of this Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation from each of its independent non-executive Directors for their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that such Directors are independent as of the year ended 31 December 2016.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors by the Group. The Remuneration Committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors without paying additional salaries.

The remuneration of Directors is determined based on the duty, responsibility and personal performance of each Director and the results of the Company.

Details of the remuneration of Directors and five individuals of the Group with highest emoluments as at the year ended 31 December 2016 are set out in note 13 and note 14 to the consolidated financial statements.

SERVICE CONTRACTS AND APPOINTMENT LETTERS OF DIRECTORS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company on 30 November 2015 with a term of 3 years commencing from February or May 2015 which may be terminated according to the respective terms of the service contracts.

Each of the independent non-executive Directors has entered into an appointment letter with the Company on 13 May 2015 for a term commencing from 21 December 2015 (i.e. the date on which the Shares were listed on the Stock Exchange) and ending on the day prior to the second session of the annual general meeting, subject to the election by approval at the first session of the annual general meeting.

For the purpose of renewal, on 20 March 2017, each of the independent non-executive Directors (except Mr. Fang Xianbai) has entered into a letter of appointment with the Company. Subject to the approval at the AGM, the term will commence on 22 May 2017. The appointment may be extended for such period as the Company and the independent non-executive Director may agree and may be terminated by either party by giving at least one month's written notice. The independent non-executive Director is subject to retirement by rotation and re-election at the annual general meetings in accordance with the memorandum and articles of association of the Company (the "**Articles of Association**").

None of the Directors has entered into any service contract with any members of the Group which is determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SUBSTANTIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in the section headed "Connected Transactions and Continuing Connected Transactions", none of the Directors directly or indirectly held any substantial interests in other substantial transactions, arrangements or contracts of the Company or any of its subsidiaries as at 31 December 2016 or any time during the year. The Company did not provide any loans to any Directors or senior management of the Company during the year.

COMPLIANCE OF NON-COMPETITION AGREEMENT

Mr. Zhang Yuqiang (the "**Controlling Shareholder**") has entered into a non-competition agreement with the Company on 2 December 2015, according to which, Mr. Zhang has undertook that he will not and will procure his associates not to directly or indirectly carry out, participate or acquire any business which is in any aspect in competition with or similar to or is likely to be in competition with the business of the Group, or hold any rights or interests or otherwise hold, participate or engage in or be connected with such business.

Independent non-executive Directors have reviewed and confirmed that the Controlling Shareholder complied with the non-competition agreement and performed the non-competition agreement in accordance with its terms during the year ended 31 December 2016 and up to the date of this Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors or their close associates held any interests in any business which directly or indirectly competes or may compete with the business of the Group.

RETIREMENT AND EMPLOYEES BENEFIT SCHEME

Details of retirement and employees benefit scheme of the Company are set out in note 39 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

There is no regulation concerning pre-emptive right in the Articles of Association and the laws of Cayman Islands.

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

As at 31 December 2016, interests or short positions held by Directors and chief executives of the Company in the Shares, underlying Shares or 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 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules were as follows:

(i) Interests in the Company

Directors	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	131,015,500 (L)	13.10%
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 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 131,015,500 Shares 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 held by Trade Power Investments Limited under SFO.

(4) The letter (L) denotes long position in such securities.

(5) As at 31 December 2016, the number of issued Shares amounted to 1,000,000,000 Shares.

(ii) Interest 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.

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

As at 31 December 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 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]
Mr. 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 Investments Limited[3]	Beneficial owner	131,015,500 (L)	13.10%
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 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 held by Joyfar Limited under the SFO.

(2) Huachen Investment Limited directly held 329,602,500 Shares, 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 held by Huachen Investment Limited under the SFO.

(3) Huakai Investment Limited directly held 131,015,500 Shares, 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 131,015,500 Shares 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 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 long position in such securities.

(6) As at 31 December 2016, the number of issued Shares amounted to 1,000,000,000 Shares.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Saved as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of securities of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire such rights in any other body corporate.

REPURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had repurchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2016.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2016, details of certain transactions entered into between the Company and parties deemed as "connected parties" in accordance with applicable accounting principles are disclosed in note 41 to consolidated financial statements in this Annual Report. According to the requirements of 14A of the Listing Rules, two of the transactions constituted connected transactions and two of the transactions constituted continuing connected transactions under the Listing Rules and shall be in compliance with the requirements of the Listing Rules and disclosed in this Annual Report. Details of the connected transactions and continuing connected transactions are set out as follows:

CONNECTED TRANSACTIONS

(i) Acquisition of a property

On 4 December 2015, Hengshi Fiberglass, a wholly-owned subsidiary of the Company, entered into a property sale and purchase agreement with Zhenshi, pursuant to which Zhenshi agreed to sell and Hengshi Fiberglass agreed to purchase three floors of office space in a building which is under construction at Tongxiang, Zhejiang Province, the PRC (中國浙江省桐鄉市) with a total planned gross floor area of approximately 3,300 square metres (the "**Property**") for a total consideration of approximately RMB75.9 million. The Property is scheduled to completed and for delivery by 2018.

The Property will be used by our Group as our office. As our business continues to grow, we need office venue with more space, high efficiency and convenience to meet the business development. After searching for possible sites, we believe the Property is a good venue for this purpose, as the area in which the Property is located is a focused development and planning zone for business and commercial use.

Zhenshi, of which Mr. Zhang Yuqiang owned as to 70.28% equity interest of its registered capital, is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company.

The total consideration for the acquisition of the Property was arrived at after arm's length negotiation between the parties based on the prevailing market price for similar properties in the areas transacted around the time of the negotiation. The consideration is to be satisfied in cash by instalment payment by the expiry of the second anniversary of the agreement. The Directors are of the view that the terms and conditions of this acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

For the year ended 31 December 2016, the Group paid a consideration of approximately RMB70.0 million for the Property, and the transaction has not yet been completed.

(ii) Capital increase in and provision of loan to Hengshi Egypt

On 4 July 2016, 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 (the "**Capital Increase**"); and (ii) entered into a loan agreement (the "**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) owned as to 70.28% of Zhenshi. Zhenshi Group Huamei New Materials Co., Ltd. (振石集團華美新材料有限公司, "**Huamei**") and Zhejiang Huajun Investment Co., Ltd. (浙江華駿投資有限公司, "**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 Listing Rules. 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 such 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.

CONTINUING CONNECTED TRANSACTIONS

(i) Purchase of logistics services

The Company entered into a framework agreement ("**Yushi International Framework Agreement**") dated 2 December 2015 with Yushi International, pursuant to which Yushi International has agreed to provide the Company with logistics services, including Yushi International (1) transports the fiberglass purchased by the Company from China Jushi to the production plants of the Company; (2) provides to the Company export agency services, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Company to its customers overseas; and (3) provides to the Company import agency services, including customs declaration and domestic transportation, in respect of imported raw materials. The effective period of the Yushi International Framework Agreement is from the listing date of 21 December 2015 ("**Listing Date**") to 31 December 2017.

Yushi International, a subsidiary of Zhenshi (Mr. Zhang Yuqiang owned as to 70.28% of equity interests of its registered capital) is an associate of Mr. Zhang Yuqiang, who is the Company's chairman, non-executive Director and ultimate Controlling Shareholder, thereby being a connected person of the Company and thus, Yushi International Framework Agreement constituted a continuing connected transaction of the Company.

The Company conducts a competitive tender process at the beginning of each year to select the logistics agents which will provide logistics services to the Company during the year. During the competitive tender process, the Company seeks quotations from at least three logistics agents. The Company assesses the candidates by reference to a number of factors including prices, service levels, geographical location, scale of operation and reputation. A logistics agent which is so selected provides the logistics services to the Company according to a further negotiated pre-determined price schedule for a term of one year to ensure that the pricing terms at which the Company solicits logistics services from a logistics agent are fair and reasonable.

For the year ended 31 December 2016, the total amount paid or payable to Yushi International for logistics services by the Company was approximately RMB54.1 million, which did not exceed the annual cap of RMB54.41 million of the transaction.

(ii) Purchase of export agency services

The Company entered into a framework agreement with Shanghai Tianshi dated on 2 December 2015 ("**Tianshi Framework Agreement**"), under which Shanghai Tianshi agrees to provide export agency services to the Company, including freight booking and customs clearance to export its fiberglass fabric products to the customers overseas of the Company. The effective period of the Tianshi Framework Agreement is from the Listing Date to 31 December 2017.

Shanghai Tianshi (Mr. Zhang Jiankan owned as to 70% of equity interests of its registered capital) is the connected person of Mr. Zhang Jiankan, who is the Company's non-executive Director, thereby being a connected person of the Company and thus, Tianshi Framework Agreement constituted a continuing connected transaction of the Company.

The Company conducts a competitive tender process at the beginning of each year to select the export agents which will provide export agency services to the Company during the year. During the competitive tender process, the Company seeks quotations from at least three export agents. The Company assesses the candidates by reference to a number of factors including prices, service levels, geographical location, scale of operation and reputation. An export agent which is so selected provides the export agency services to the Company according to a further negotiated pre-determined price schedule for a term of one year to ensures that the pricing terms at which the Company solicits export agency services from an expert agent are fair and reasonable.

The total amount paid or payable to Shanghai Tianshi for export agency services by the Company for the year ended 31 December 2016 was approximately RMB15.0 million, which did not exceed the annual cap of RMB15.85 million of the transaction.

Auditors have reported and confirmed those continuing connected transactions to the Audit Committee in accordance with relevant work in progress:

(a) the transactions have been approved by the Board;

(b) the transactions were in compliance with the pricing policies of the Company in all material aspects;

(c) the transactions were entered into in accordance with relevant agreements regulating those transactions in all material aspects; and

(d) the transactions did not exceed the annual cap of relevant continuing connected transactions.

Independent non-executive Directors have reviewed the continuing connected transactions, and confirmed that:

(a) the transactions were entered into in the ordinary and usual course of business of the Company;

(b) the transactions were entered into in accordance with normal commercial terms or the terms of the transactions better than those terms from obtaining services or from provision of services or obtained from independent third parties by the Company;

(c) the terms of transactions are fair and reasonable and are in the interests of the Shareholders as a whole in accordance with the relevant agreements of continuing connected transactions mentioned above; and

(d) the transactions did not exceed the annual cap of relevant continuing connected transactions.

According to the requirements of the Listing Rules, Deloitte Touche Tohmatsu, the auditor of the Company, has reported the continuing connected transactions of the Company. The Company has received the unqualified letter issued by Deloitte Touche Tohmatsu in relation to the continuing connected transactions disclosed above.

Saved as disclosed above, related party transactions disclosed in note 41 to financial statements of this Annual Report were the connected transactions exempt from the requirements of reporting, announcements and shareholders' approval under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

As at 31 December 2016, Zhenshi (Mr. Zhang Yuqiang owned as to 70.28% of equity interests of its registered capital) held a 15.59% equity interest in China Jushi, and our chairman, non-executive Director and ultimate Controlling Shareholder, Mr. Zhang Yuqiang, is also the general manager and a director of China Jushi. In addition, as at 31 December 2016, Mr. Tang Hsin-hua, who was China Jushi's supervisor and held a 0.61% interest in China Jushi, owned a 22.50% equity interest in our Company, and one director and one senior management member of China Jushi owned, in aggregate, less than 0.96% equity interest in our Company. Save as disclosed above, none of China Jushi's directors, supervisors and senior management members was our Director or senior management member or held any equity interest in the Company, pursuant to which, according to the undertakings made by the Company in the Prospectus when listing, this Annual Report will continue to announce the transactions situation with China Jushi Group, which is as following:

As disclosed in "Prospectus" and "2015 annual report" issued by the Company on 8 December 2015 and 14 April 2016, and given the long-term stable cooperative and complementary relationship between the Group and China Jushi Group, the long-term stable quality and good reputation of China Jushi Group in raw materials supplying such as fiberglass and the cost edge of purchasing raw materials from China Jushi Group by the Group, the Company has entered into Strategic Cooperation Agreement with Jushi Group, wholly owned subsidiary of China Jushi Group on 1 January 2015 to guarantee the long-term supply of fiberglass by China Jushi Group to the Company. The term of the agreement is three years from 1 January 2015 to 31 December 2017.

In addition, the Company sells the finished goods of Hengshi Fiberglass through overseas subsidiaries of China Jushi, which act as dealers of the Company as China Jushi enjoys rather high reputation in international market and its dealers spread across the major overseas wind power market, which is helpful for the Company to maintain the selling price of finished goods and expand overseas market.

According to the pricing policies of the Company, Hengshi Fiberglass will seek quotations from at least two independent fiberglass suppliers to ensure that the prices and terms offered by China Jushi Group in respect of the sale of fiberglass to Hengshi Fiberglass are fair and reasonable, in the interest of the Shareholders as a whole and comparable to those offered by the other fiberglass suppliers.

For the year ended 31 December 2016, the purchase raw materials amount by the Group from China Jushi Group is approximately RMB608.9 million, and the total amount of the finished goods sold by the Group to China Jushi Group was approximately RMB12.8 million.

Independent non-executive Directors have reviewed the relevant transactions with China Jushi Group, and confirmed that:

(a) the transactions have been approved by the Board;

(b) the terms of transactions are fair and reasonable;

(c) the transactions were entered into in accordance with normal or better commercial terms and in the ordinary and usual course of business of the Company. The terms of the transactions are not less favourable than those terms obtained or provided by (as the case maybe) independent third parties;

(d) the transactions are in the interests of the Company and its Shareholders as a whole; and

(e) the transactions were entered into in accordance with relevant agreements regulating those transactions in all material aspects.

Auditors have carried out relevant work to report and confirm to the Board the transactions entered into by the Group with China Jushi and its subsidiaries with individual company aggregated annual transaction amount exceeding HK$1 million for the year ended 31 December 2016:

(a) the transactions have been approved by the Board;

(b) the transactions were in compliance with the pricing policies of the Group in all material aspects; and

(c) the transactions were entered into in accordance with relevant agreements regulating those transactions in all material aspects.

EQUITY-LINKED AGREEMENT

No equity-linked agreements were entered into by the Company as of the year ended 31 December 2016.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the Reporting Period.

PERMITTED INDEMNITY PROVISION

Pursuant to article 182 of the Articles of Association, if any Director is exposed to become a party of any legal actions, suits or proceedings (no matter civil, criminal, administrative or investigative) in which judgment is given in his favour, or in which he is acquitted, the Company shall indemnify the Directors for all of the liabilities, losses and expenses suffered (including attorney's fees) reasonably incurred by them as Directors from the Company's assets within the fullest extent permitted by the existing or possibly amended applicable laws and protect them from being suffered.

The Company has purchased liability insurance for the Directors and senior management of the Company for any possible litigations against them.

DONATION

The Company did not contribute charitable and other donations during this financial year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained 25% of public float as prescribed in the Listing Rules as at the date of this Annual Report.

MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2016, the Company has not been involved in any material litigation or arbitration; as far as the Directors are aware, no litigations or claims of material importance is pending or threatened against the Company.

REVIEW OF AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, risk management, internal controls and financial reporting matters (including reviewing the financial statements for the year).

The Audit Committee has also reviewed the financial statements, annual results announcement of the Company and the Annual Report for the year ended 31 December 2016.

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 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 year ended 31 December 2016.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. For the year ended 31 December 2016, the Company has complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Details of the Corporate Governance Code adopted by the Company are set out in the "Corporate Governance Report" on pages 65 to 78 of this Annual Report.

AUDITOR

The financial report of the Group has been audited by Deloitte Touche Tohmatsu who will retire at the AGM and is eligible for reappointment. Resolution in relation to the reappointment of Deloitte Touche Tohmatsu as the auditor of the Company will be presented at the AGM for consideration and approval.

EVENTS AFTER THE REPORTING PERIOD

Hengshi USA Wind Power Materials Corporation (an indirect wholly-owned subsidiary of the Company) was duly organized on 1 January 2017 in South Carolina, the United States, and the State of South Carolina issued the Certificate of Existence on 6 February 2017. Please refer to the announcement of the Company on 7 February 2017.

Saved as disclosed in this Annual Report, since 31 December 2016 (being the end date of the financial year under report), no significant events have occurred which would have an impact on the Company.

By order of the Board
Zhang Yuqiang
Chairman of the Board

Hong Kong: 20 March 2017

Environmental, Social and Governance Report

INTRODUCTION

As a manufacturing enterprise of fiberglass fabrics at the front of the wind power industry chain, the Group has always taken "conservation and improvement of the living environment, development of renewable energy undertakings and creation of maximum value for its employees, Shareholders, clients and stakeholders" as its mission, and has been committed to becoming "a global leader in fiberglass fabrics used in wind turbine blades".

In Hengshi, it is well known to us that the Group, as a member of the social citizens, is inseparable from the superior social environment and the support of the general public in respect of its development. That "what is taken from the society is used for public service" is our most fundamental understanding towards sustainable development of the enterprise.

In Hengshi, we have adhered to the core concept of "conduct, innovation, responsibility, learning and enthusiasm", and has taken it as our work guidelines and values, making it becomes a code of conduct that the Group has always pursued and a standard for measuring whether each employee is qualified or not. Such value is deeply understood, accepted and practised by each member of the Group, and we believe that it is a significant driving force for the further development and expansion of the Group.

In Hengshi, we regard suppliers, partners, governments and communities as our family and friends, promoting with each other for mutual development. We are constantly responding to and satisfying the public's demand during our development.

In Hengshi, we take responsibilities, do our best to contribute to the society, and make constant efforts in creating a living environment with features of resource-saving and picturesque scenery for the society, public and our next generation.

We believe that we are an enterprise with a strong sense of responsibility, which in turn makes us a great company.

This report, covering all operating businesses of the Group, aims to reflect the actions and performance of the Group in proactively fulfilling its social responsibilities in respect of environmental protection, working environment, operating practices and community participation during the Reporting Period.

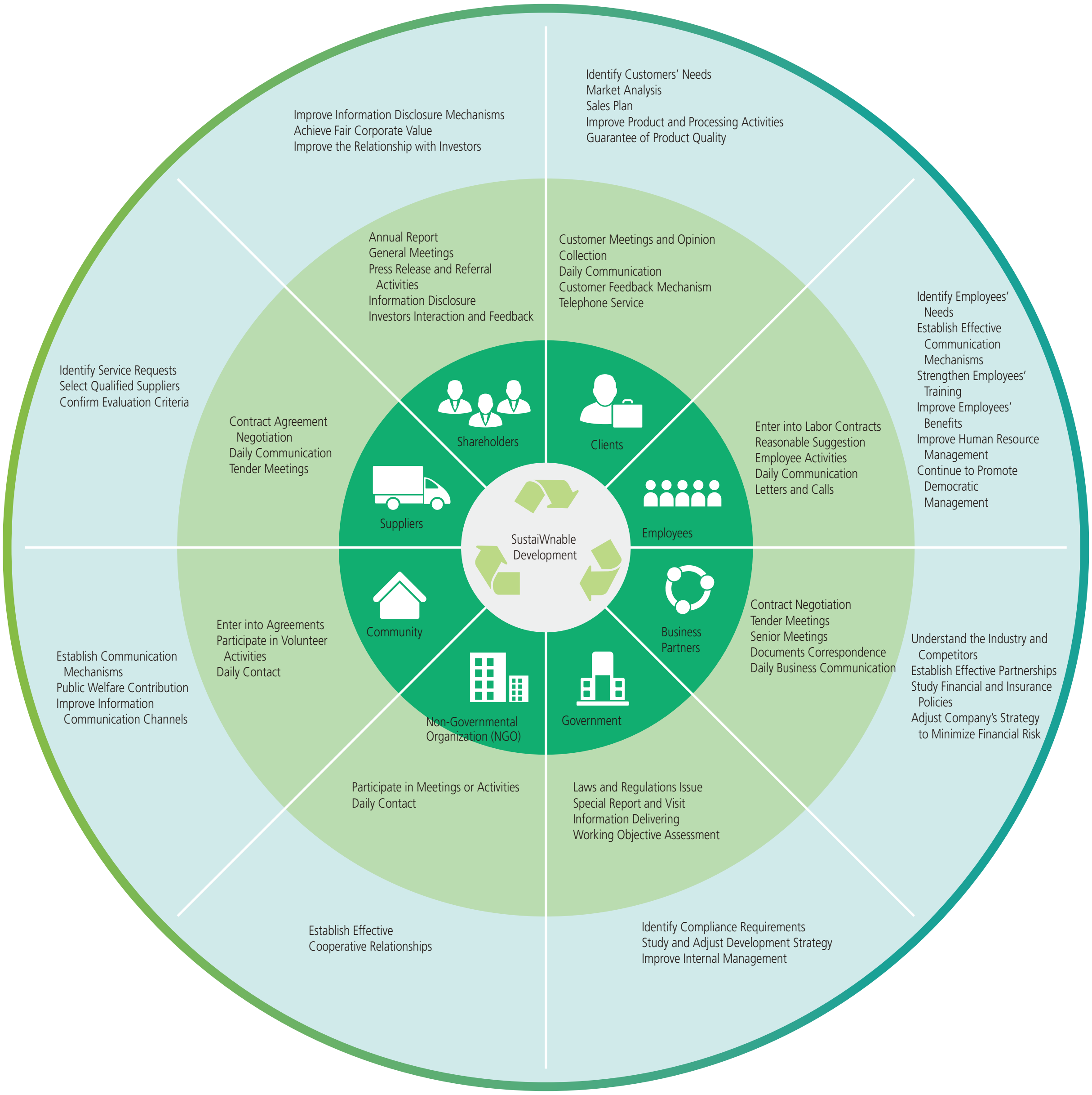
This report has been formulated in accordance with the *Environmental, Social and Governance* Reporting Guide as set out in Appendix 27 to the Listing Rules of the Stock Exchange. It is the first environmental, social and governance report published by the Group to the society. For the performance of governance, please refer to the section headed "Corporate Governance Report" in this Annual Report.

STAKEHOLDER

We consider stakeholders represent groups or individuals that can affect decisions and activities of the enterprise or that can be affected by decisions and activities of the enterprise, which include governments, employees, clients, suppliers, business partners and communities.

We adhere to the principle of "honesty, equality and interaction", value the communication with stakeholders, and actively promote and improve the open and transparent communication and participation mechanism between stakeholders. We strengthen the communication and disclosure of information via various channels like the Company's website, newspapers, press conferences, investor receptions, telephones and e-mails to encourage stakeholders to participate in the fulfillment of the Company's social responsibilities, with a view of promoting the coordinated development of the Company's development, environmental protection and social progress.

The chart below shows the methods established by the Company based on the concept of sustainable development to communicate with and give feedback to stakeholders:



ENVIRONMENTAL

The Group has always insisted on the "Four No Principles", i.e. not at the expense of environmental pollution, not at the expense of endangering employees' safety and health, not at the expense of stepping beyond the laws and regulations and not at the expense of wasting resources and damaging the ecology. In strict compliance with the various local laws and regulations where its production and operation locate in, the Group has fully promoted the green growth and green development of the enterprise by adhering to the concept of green business, continuously improving the management system of environmental protection and energy saving and emission reducing as well as increasing its investment in energy saving and environmental protection.

EMISSIONS

Impacts on water quality and measures to reduce the impacts

There is no wastewater in the production process of the Group, except some domestic sewage produced during the employees' work as well as the rainwater discharged on rainy and snowy days. Every production base of the Group adopted the rainwater-sewage diversion facilities, which enable the rainwater in plants to be collected and directly discharged via the rainwater pipes. As for the domestic sewage, it will be discharged into the municipal sewage pipe network, and will ultimately be discharged to Qiantang River after it is treated to Level A standard in Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) (GB18918-2002) by Tongxiang Shenhe Water Affairs Limited (桐鄉申和水務有限公司). Therefore, the production and operation of the Group has no material impacts on the nearby water quality.

Impacts on air and measures to reduce the impacts

There is no waste gas in the production process of the Group, except some cooking fumes exhaust produced during the food processing in the employee canteen as well as exhaust gas emissions discharged from official business vehicles and aviation due to employees' business trip. In order to reduce the exhaust emission, the Group purchased the smoke electrostatic purification device at the beginning of the canteen's construction, which is able to treat the smoke and fume exhaust in the canteen so that they can meet the medium standard (number of standard stoves is 4) in *Emission Standard of Cooking Fume in Food Industry (Trial)* (《食品業油煙排放標準(試行)》) (GB18483-2001). Therefore, the exhaust emission has slight impact on the surrounding atmospheric environment.

The Group provides its employees with official business vehicle convenience for short-distance business trip. During the Reporting Period, the Group's emission data for official business vehicles (excluding Hengshi Egypt) are as follows:

Official Business Vehicle Emission Data

Mileage (km)	134,945.0
Gasoline consumption (liter)	202,417.5
Nitrogen oxide emissions[1] (kg)	119.4
Sulfur dioxide emissions[1] (kg)	3.0
Particulates emissions[2] (kg)	11.4

1. Nitrogen oxides and sulfur dioxide emissions are calculated based on the emission factor from EMFAC-HK Vehicle Emission Calculation; and

2. Particulates emissions are calculated based on the MOBILE 6.1 Particulate Emission Factor from United States Environmental Protection Agency.

During the Reporting Period, the Group's direct and indirect greenhouse gas emissions data produced from its production and operation are as follows:

Greenhouse Gas Emissions[1] Data

Total greenhouse gas[2] emissions (Scope 1 and 2) (ton)	6,251.7
Total greenhouse gas emissions per square meter of gross floor area (Scope 1 and 2) (ton/sq m)	0.04
Total greenhouse gas emissions per employee (Scope 1 and 2) (ton/employee)	6.1
Total greenhouse gas emissions (Scope 1, 2 and 3) (ton)	6,406.3
Total greenhouse gas emissions per square meter of gross floor area (Scope 1, 2 and 3) (ton/sq m)	0.04
Total greenhouse gas emissions per employee (Scope 1, 2 and 3) (ton/employee)	6.2
Direct emissions[3] (Scope 1) (ton)	547.9
Gasoline[4]	547.9
Indirect emissions (Scope 2) (ton)	5,703.8
Electricity	8,825.1
Greenhouse gas emission reduction from photovoltaic power generation[5]	3,121.3
Indirect emission (Scope 3) (ton)	88.4
Business trip by plane[6]	79.0
Paper consumption[7]	9.4
Greenhouse gas emissions from power consumption in tap water plant for processing tap water (ton)	29.7
Greenhouse gas emission from power consumption in wastewater treatment plant for processing wastewater from the Group (ton)	36.6

1. Related data in Hengshi Egypt have not been included in the scope of this study;

2. Substantially all of the Group's greenhouse gas emissions are from indirect emissions, in which the greenhouse gas indirectly emitted from electricity takes up the larger proportion;

3. All of them are gasoline consumed for official business vehicles of the Group, and all the transport facilities used in the Group's plants are electric-driven equipment;

4. Apart from gasoline consumption, as the Group's employee canteen consumed a small amount of natural gas as fuel, its greenhouse gas emission is relatively low. Thus, it is excluded from the statistics;

5. Please refer to the section headed "Energy Consumption" in this report for the photovoltaic power generation;

6. Emissions data from business trip by plane are calculated primarily based on the carbon emissions calculator of International Civil Aviation Organization;

7. Paper consumption refers to the office paper consumption of the Group, excluding packaging paper.

The impact of solid waste and measures to reduce the impact

The solid wastes derived from the production and operation of the Group mainly comprise of wasted glass fiber, scrap and domestic waste. Among which, wasted glass fiber and scrap are collectively collected by the Group for reuse or selling to third parties for reuse. While domestic waste is collectively collected by the Group and regularly cleaned and transported and collectively disposed by the municipal sanitation department. During the Reporting Period, the Group had generated a total of 8.5 tons wasted glass fiber and scrap, 7.2 tons of which were sold to third parties for reuse and the remaining was collected for recycling and disposal. Since the Group's solid wastes can be re-used or collectively collected for effective disposal, the impact on the surrounding environment is insignificant.

USAGE OF RESOURCES[1]

Energy consumption

The mainly energy consumption of the Group is electricity. For the statistical consistency and comparability, the Group translate the actual consumption of various energy according to relevant requirements of the national standard of General principle for calculation of the comprehensive energy consumption GB2589-2008 (《綜合能耗計算通則 GB2589-2008》) based on the standard of 1 kWh equals to 0.1229 kg standard coal, 1 kg gasoline equals to 1.4714 kg standard coal. During the Reporting Period, the Group's energy consumption is as follows:

Energy Consumption Data

Total energy consumption (ton standard coal)	1.103.3
Total energy consumption per square meter of floor area (ton standard coal/sq m)	0.01
Total energy consumption per employee (ton standard coal/employee)	1.1
Direct energy consumption (ton standard coal)	215.9
Gasoline[2] (Litre)	202,417.5
Indirect emissions (ton standard coal)	887.4
Total electricity consumption (kWh)	11,170,998.6
Photovoltaic systems (kWh)	3,951,000.0
Energy consumption expenditure (RMB0'000)	669.4

1. The data on the usage of resources herein did not include that of Hengshi Egypt.

2. The density of gasoline is converted based on 0.725kg/Litre.

Water consumption

In addition to domestic water consumption, the Group consumes certain water as the production workshops which need to use atomizing humidifier to maintain the humidity of the air. The water consumed is derived from the tap water supplied by the local municipal, the costs of water consumption accounted for an insignificant proportion in the product costs of the Group and there was no issue in sourcing water to fit for our production. During the Reporting Period, the data of the Group's water consumption is as follows:

Water Consumption Data

Total water consumption (ton)	125,178.0
Total water consumption per square meter of floor area (ton)	0.9
Total energy consumption per employee (ton/employee)	121.7
Total water consumption expenditure (RMB0'000)	51.38

Package materials

To facilitate transportation and storage, the finished goods of the Group require appropriate packaging. The main packaging materials are tray, paper strew and paper box. During the Reporting Period, the data of package material consumption is as follows:

Package Materials Data

Total amount of package materials for finished goods (RMB million)	37.1
Amount of tray (RMB million)	13.9
Amount of paper strew (RMB million)	5.9
Amount of paper box (RMB million)	8.1
Amount of other package materials (RMB million)	9.2

THE ENVIRONMENT AND NATURAL RESOURCES

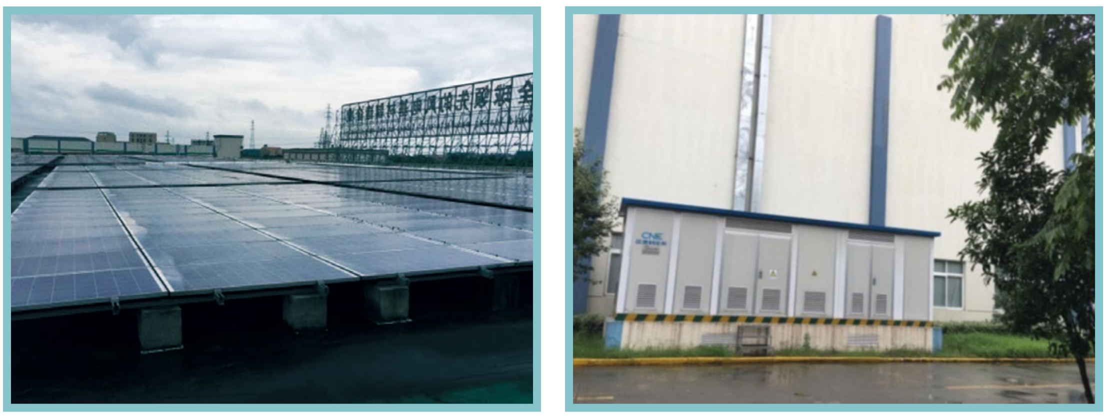
INVESTMENTS IN AND MEASURES FOR ENVIRONMENTAL PROTECTION AND ENERGY FACILITIES

The Group actively promotes the concept of energy conservation and environmental protection in the course of production and operation, and implements environmental protection measures through various channels and measures:

- Constant energy-conservation transformation of workshop lighting, toilet lights, office lights to reduce electricity consumption since 2010;

- Recovery and recycling of condensate water from cooling water pump of the central air-conditioning system and central air condition, and transformation of recovery and comprehensive utilization of waste heat from air compressor to minimize energy consumption;

- Introduction of photovoltaic power generation system, installation of solar panels on the ceiling of the workshop to annually generate photovoltaic power amounted to 3,951,000 kwh directly available for production to reduce energy consumption;



Photovoltaic Power Generation System

- All newly-constructed, altered and expanded projects strictly complied with the national requirements in implementing acceptance policy on environmental protection, infrastructure, and fire protection, prevent issues such as environmental and occupational safety from the source;

- Reduce energy consumption by using new technologies, continuous renovation and upgrade of the equipment, to improve the production efficiency and reduce the energy consumption by the Group;

- Enhance publicity and training to promote the concept of energy saving through various channels such as the Company's website, slogans, warnings, billboard. Through measures like putting up slogans such as "Save Electricity" next to the switch of lights and air-conditioner in the meeting room and offices and "Save Water" next to the taps, and setting temperature of the air-conditioners not lower than 26 degrees Celsius in summer and not higher than 20 degrees Celsius in winter, remind employees to save every drop of water and every unit of electricity.

During the Reporting Period, the Group's electricity consumption of per ton products decreased by 12.2KWh or 11.58% as compared with that in 2015. Water consumption of per ton products decreased by 0.2 ton or 12.88% as compared with that in 2015.

SOCIAL

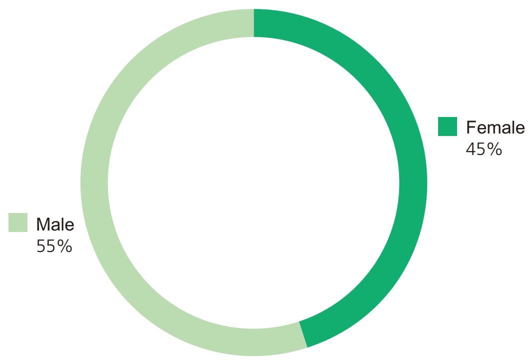
EMPLOYMENT AND LABOR PRACTICES

We know that employee is the most important asset of the enterprise, as well as the cornerstone for enterprise's development and growth. The Group always adheres to "people-oriented" concept, and strives to create a harmonious, comfortable and safe working environment by respecting employees' wishes, clarifying employment forms, advocating free choice of occupation, safeguarding employees' legal rights and interests and treating employees from different countries, races and genders equally. The Group provides professional and efficient training, competitive salaries and a broad career development space for employees to make them realizing their personal value and grow along with the enterprise.

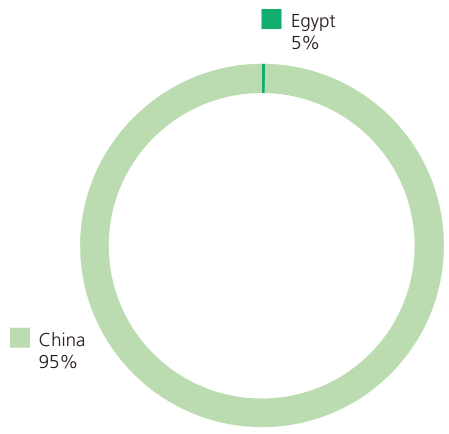
EMPLOYMENT

As at 31 December 2016, the Group has 1,029 (2015: 1,086) employees, including personnel of production, R&D and management team. Among them, female employees account for 44.8%, giving full play to their characteristics regarding carefulness and manual dexterity during glass fabrics knitting. Employees serve approximately 4.09 years on average, with 73.0% of employees ranging from age 31 to age 50. We complied with applicable employment laws and regulations in all material aspects during the Reporting Period.

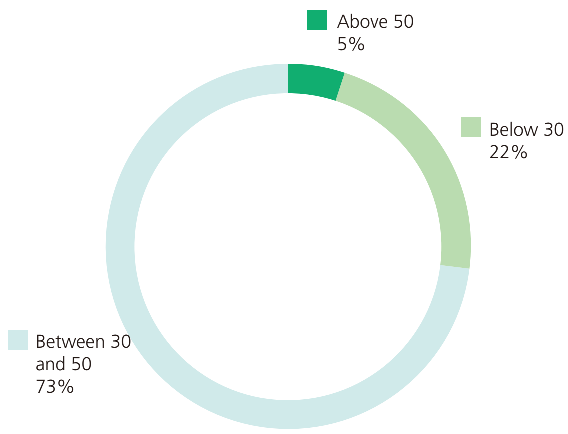
Percentage of employees by gender



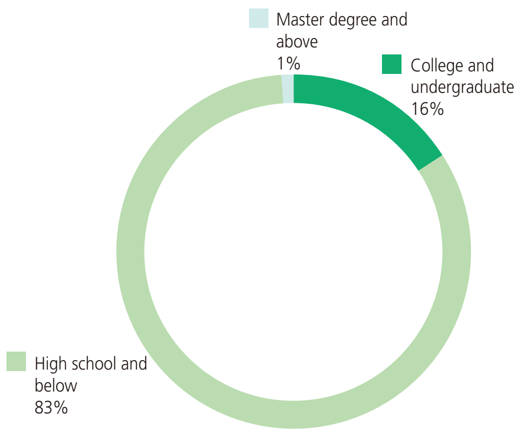
Percentage of employees by regions



Percentage of employees by ages



Percentage of employees by education



REMUNERATION

In order to ensure the consistency and fairness of salary management, the Group has formulated the "Remuneration and Welfare Management Standards" (《薪酬福利管理標準》), which sets out salary standards and promotion standards of position and salary for each position according to the employee's experience, qualification and responsibilities and relevant laws and regulations, and prevents any different treatment on the grounds of race, religion, gender, marital status and other individual differences.

WELFARE

Comprehensive insurance plan

In accordance with relevant policies and regulations of the local government of where the Group operates, the Group shall pay the basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance, work injury insurance and housing provident fund for employees in prescribed proportion every month, and maintain additional insurance for each employee.

Holiday subsidies and allowances

In order to enhance employees' sense of identity and belonging to the Group, the Group ensures that every employee will enjoy statutory holidays. At the same time, the Group offers free birthday cake to employees on their birthday and offers bread coupon, moon cakes, New Year's gift, New Year's Eve dinner, etc. upon the coming of traditional festivals to express sincere gratitude to employees for their hard work and dedication.

Dormitory service

In order to meet non-local employees' accommodation demand, the Group provides employees with three-room staff apartments and provides housing subsidies to create a comfortable living and working environment.

Catering services

For the convenience of employees' dining, the Group provides employees with a comfortable dining environment and three healthy meals with preferential prices every day at where it operates, and also provides a subsidy of RMB3 per meal for shift workers.

Labour union travel

The labour union of the Group encourages employees to organize their own tourism activities once every year and a certain amount of travel subsidy will be paid by the labour union.

Provision of interest-free loans to house purchase

In order to improve the living environment of employees, the Group has formulated the " Requirements on Providing Employee with Loans for House Purchase" (《資助員工借款購房有關規定》) to provide employees with a certain amount of interest-free loans to alleviate eligible employees' financial difficulties in purchasing commercial houses and help them live a peaceful and contented life.

During Reporting Period, the total number of employees who have received the Group's funding support in their home purchases is 22 and the amount of funding support is approximately RMB7.4 million.

TRAINING AND DEVELOPMENT

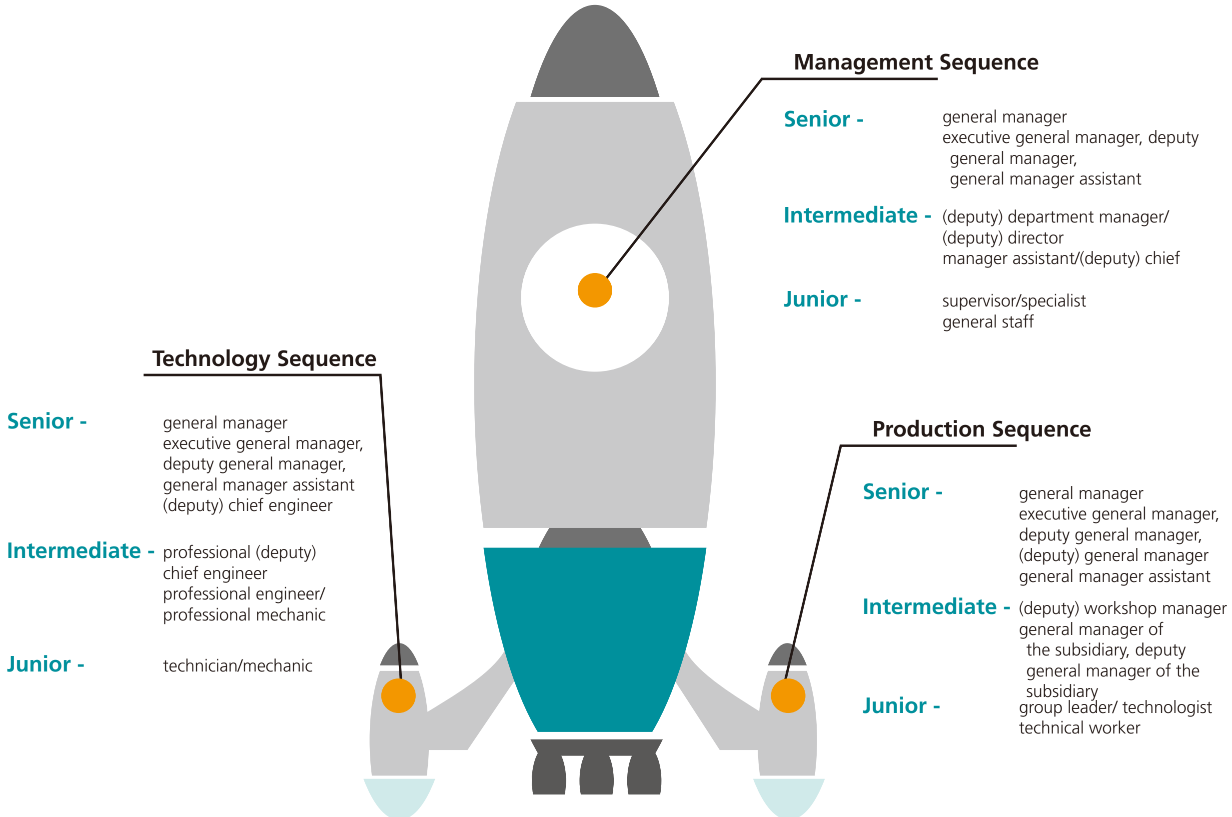
In order to create a "learning organization", the Group provides comprehensive and sufficient opportunities of training, learning and development for employees with different positions and types of work. The training content includes corporate culture, operating skills of positions, technology development, communication and negotiation skills, management ability, etc., so as to comprehensively enhance employees' professional quality and overall quality and develop the corporate culture which can promote employees to grow together with the Company.

During the Reporting Period, the Group organized 297 training in respect of business development, professional skills and management skills, etc. The number of employees who participated in the training reached 16,749 and the training time per employee is 37.96 learning hours. The total training expenses are approximately RMB88,000.

During the Reporting Period, the training records of employees of the Group are as follows:

Key performance indicators	2016	2015
Number of employees	**1,029**	1,086
Total training expenses (RMB'0,000)	**8.8**	30.22
Total training hours of employees	**37,766**	28,626
Percentage of training received	**100%**	100%
By type of employment (hours/person)		
Average training hours per employee	**37.96**	25.41
By gender (person)		
Male	**37.96**	25.41
Female	**37.96**	25.41
By type of employment (hours/person)		
Senior	**88**	96
Intermediate	**120**	135
General	**37.44**	25.12
Training category (person)		
Number of employees attending external training courses	**162**	86
Number of employees attending the Group's internal training courses	**1,029**	1,086

In order to motivate employees to make progress, the Group provides three promotion channels for employees by different types of work:



BALANCE BETWEEN WORK AND REST

In order to promote corporate culture, enhance organizational cohesion, and promote the concept of balance between work and life and healthy workplace, the Group organizes employees to conduct a wide range of recreational activities and sports activities every year to encourage employees to integrate into the corporate culture and develop the habit of regular exercise to keep fit.

Guessing lantern riddles in the lantern festival

The Company will held the activity of "Guessing Riddles and Sending Dumplings" in the staff canteen when the Lantern Festival is coming.

Activities of women's day (March 8)

In order to enrich the amateur cultural life of female employees, reduce the work pressure and improve the happiness index of female employees, the labour union of the Group held some fun activities with the theme of Women's Day (March 8) every year.

Tug of war

The once-a – year tug of war not only can relax the body and mind, but also enhance the cohesiveness of employees.

Family activities on 1 June

The Company advocates harmonious and warm family culture and requires the staff not to ignore their family because of work. In order to provide a platform for staff to share the happiness of their families, families of the staff and the "Little Migratory Birds" away from their parents are invited to participate all kinds of family activities held by the Company annually.

Cultural and recreational activities

The Karaoke and variety show held by the Company annually is a platform for art enthusiasts to show themselves and also presents a wonderful feast of culture and art for other employees.

Staff basketball match

The annual staff basketball match of the Company encourages everyone to do more exercises to have a good health.

Physical fitness test for middle-level cadres

The chairman of the Board and management of the Company establish a model and lead the middle-level cadres to participate the physical fitness test so as to encourage everyone to do more exercises and keep a long-term habit of exercise, which enable them to provide better services for the Company.

Dinner for the Spring festival

The Company holds a grand dinner for the Spring Festival at the end of each year, accompanying with performance and lottery activities to appreciate the generous contribution of the staff during the year.

OCCUPATIONAL HEALTH AND SAFETY

There are no hazardous chemicals or emissions of toxic and hazardous substances involved in the production process of the Group, except the involvement of a large number of machine equipment, which may bring physical injury occasionally due to improper operation of the machine equipment.

In order to give sincere care to the health of the staff of the Company, create corporate culture of "Work Healthily and Happily, Live Healthily and Happily" for our staff and establish a people-oriented harmonious corporate, the Group strictly implements the relevant laws and regulations, including Labor Law, Production Safety Law and Law on Prevention and Control of Occupational Disease, and has passed the certification of ISO14001 and OHSAS18001.

The Group also established systems including Hazard Identification, Risk Assessment and Risk Control Procedure, Occupational Health and Safety Performance Management Procedure and Hazardous Chemical Management Procedure, prepared and rehearsed various contingency plans (1 comprehensive contingency plan and 7 special contingency plans), provided relevant training for the staff and organized the staff to identify hazard in order to improve the emergency capability of the organization and the capability of the staff to handle various emergency and ensure to minimize the occurrence of the relevant risks.

To ensure the implement of each safety measure, the Group established a safety committee composing of the general manager, deputy general manager and the heads of each department, and convened safety committee meeting quarterly to ensure each safety management system was effectively implemented.

During the Reporting Period, the number of the reportable case of work-related injury was 2, and work-related injury rate per 1,000 workers was approximately 0.21%. During the Reporting Period, there was no staff disability and fatality because of work-related injury.

In addition, the Group formulated annual medical exam (the exam includes more than 20 items) program for each employee, and the number of the employees participated in the medical exam in the year was 932 (since the medical exam was a voluntary choice of the employee, some employees failed to participate because of their self-condition or other considerations). Moreover, the Group provided the relevant positions with protective gears, including gloves, dust masks and working caps, and arranged flexible job rotation for the risk positions to safeguard the staff's health. During the Reporting Period, the passing rate for the occupational disease exam of the staff of the Group was 100% and there was no accident arising from occupational disease or occupational hazards.

During the Reporting Period, we complied with applicable health and safety laws and regulations in all material aspects.

LABOR STANDARDS

The Group is strictly in compliance with the guidance of employment laws and related policies of the area it operates, including but not limited to Labor Law, Labor Contracts Law, Provisions on the Prohibition of Using Child Labor and Interim Provisions on Labor Dispatch, respects the willingness of the employee, specifies employment form and advocates free choice of profession. Employing children in any of its business and any act of forced labor are prohibited.

During the Reporting Period, the Group complied with relevant labour standards in all material aspects and we were not aware of any illegal act of employing children or young people to conduct dangerous job or forced labor in any of its business or suppliers.

OPERATING PRACTICES

Supply Chain management

Selection of suppliers

The Company is in the upstream of the wind power industry, the main raw material we purchased is fiberglass threads which are used to made fiberglass fabrics used in wind turbine blades. Because of the special requirements for the strength, modulus and durability of the fiberglass fabrics from blade manufactures, when choosing suppliers, the Group would not only require the suppliers to have related certification, but also take various tests on their products.

To ensure the product quality, the Group formulated "Provisions on Supplier Management" and "Purchase Control Procedures" to regulate the development and access of new suppliers and to maintain and manage the existing suppliers. The Group does not rely solely on the size of the suppliers, but pays more attention to their honesty, the performance of their social responsibilities and the price and performance of their products in choosing and evaluating the suppliers. We will also inspect the suppliers' production capability, technology and quality system, safety and environment protection, law compliance and the qualification of the staff according to the practical situations to establish "Qualified Suppliers List". We will conduct evaluation on them annually, and they should not become our suppliers until being evaluated as "Qualified".

In addition, to further ensure the products quality, during the Reporting Period, quality department of the Group conducted site audit and evaluation on 6 main suppliers and issued audit report requiring suppliers who failed the audit to make remedial changes within a prescribed period so as to ensure the stability in quality of the raw materials provided by the suppliers. During the Reporting Period, the number of suppliers of the Group was as follow:

Cooperation with Suppliers

Key performance indicator	**2016**	2015(note)
Total suppliers (Unit)	**84**	60
By regions		
China	**59**	59
Egypt	**24**	–
Others	**1**	1
By cooperation relationship		
The number of long-term suppliers for more than 5 years	**32**	21
of which: the number of strategic suppliers	**1**	1
Others	**51**	39

Note: Hengshi Egypt was still under construction in 2015, the relevant suppliers were not included in the statistics.

Supplier relationship

When developing partnership, the Group focuses on establishing and maintaining effective co-operation mechanism with suppliers. On one hand, we set up a platform to communicate and interact with the suppliers, such as convening annual supplier meeting and monthly supplier coordination regular meeting to communicate in respect of product quality, date of delivery, inventory and others so as to ensure the stability of the product quality of the Group and optimize the inventory management of raw materials of the Group; on the other hand, we entered into strategic cooperation agreement with the main suppliers to ensure the continuous and stable supply of raw materials.

Sunshine purchase

"Guarantee on Corruption-free & Self-discipline" shall be signed by all the staffs in purchase and supply department in order to urge the procurement staffs to be corruption-free and self-disciplined as well as comply with professional ethics, while slogans like "Fairness, Justness, Openness" and "Sunshine Operation, No Bribery" are posted in visible places of the conference room and negotiation room to remind all staffs to standardize their operation at all times. Hotline for reporting is also provided to oversee the procurement process on ongoing basis.

Product Responsibilities

The Group considers product quality and enterprise credibility as our life and has been committing to provide products and services with low-price, high-quality, safety and stability to customers. During the Reporting Period, we complied with relevant laws and regulations relating to products and services in all material aspects.

Product quality

The Group has obtained the ISO9001 certification for its quality management system and ISO14001 certification for its environmental management system, and provides products with better quality assurances in aspects of products design, development and production to customers as well as satisfies the requirements of environmental protection.

All main products of the Group have obtained DNV GL certification granted by DNV GL (a renowned international certification body) and customer certification required by overseas manufacturers of wind turbine and blades. In order to obtain relevant certifications and ensure to maintain high-quality of the Group's products, the Hengshi Fiberglass Testing Centre has conducted various functional tests on the strength, modulus and anti-fatigue of the products and raw materials of the Group. During the Reporting Period, the Centre was accredited by CNAS laboratory and DNV GL laboratory successively and the test reports it issued are entitled to use "CNAS" certification mark, the international mutual accreditation joint certification mark of "ILAC-MRA/CNAS" as well as "DNV GL" certification mark, which not only can secure the quality the Group's products, but also imply that the test reports issued by the Group to the customers within the scope of accreditation are of independence, reliability and authority.

During the Reporting Period, the Group did not involve in any material quality incidents.

Customer complaints and returns and exchanges processing

The Group continues to optimize the customer service philosophy, values highly the customer complaints against relevant products and services and developed the "Administrative Measures regarding to Customer Complaints, Returns and Claims" to regulate after-sales service so as to provide high-quality after-sales service and technical support to customers. Should there be any product quality or technical issues, customers may advise on the products and services of the Group through the customer service hotline (+86-573-88136717) or require arranging product returns and exchanges, etc.

During the Reporting Period, the Group received 52 reports on complaints and feedbacks of products and services, which were responded and among which, 95% were solved timely during the Reporting Period.

During the Reporting Period, we have not recalled any products manufactured and sold by the Group due to quality, safety and health issues.

Intellectual property rights

The Group values highly the R&D and innovation of fiberglass fabrics. R&D department and quality department are responsible for the R&D, management and maintenance of intellectual property rights and maintaining good communication with the local intellectual property rights bureau where it operates. During the Reporting Period, the R&D expenses of the Group aggregated to approximately RMB37.4 million and got 11 patent licenses in total. The number of patents authorized accumulated up to 56, in which 6 were inventions patents and 50 were utility model patents.

Customer privacy

In the normal course of operation, the Group accesses to the personal information of stakeholders and customer information from time to time. As a responsible enterprise, we always comply with relevant laws and regulations in relation to personal privacy protection of the regions where we operate and develop regulations such as "Information Confidentiality System" to continuously monitor and record any complaints related to invasion of privacy and loss of information of customers. We provide training and education to relevant persons who have access to customer information to ensure proper maintenance and reasonable use of customer information.

During the Reporting Period, the Group did not receive or notice any report regarding to customer privacy and loss of customer information.

Customer satisfaction

In order to assess our business performance, we refer to the "China Customer Satisfaction Index (CCSI)" and make regular customer satisfaction survey to understand customer demand and the satisfaction level with our operating performance so as to continually improve the operation of the Group in accordance with customer feedback.

The assessment in the survey is classified as "very satisfied", " satisfied ", "general", "nearly satisfied" and "very dissatisfied" and the customer satisfaction index was calculated by the formula. The Group have received 55 satisfaction survey from customers at home and abroad during the Reporting Period. The main evaluated items of the Group's customer satisfaction survey are as following, which reflect the high recognition from our customers for our products and services:

The main evaluated items in customer satisfaction test

Structural variables	Structural variables	Quality expectation	Quality perception	Value perception	Satisfaction	Customer perception	Brand image
Abroad	Index	93.24	94.39	89.14	93.42	95.71	97.16
	Level	Very satisfied	Very satisfied	Satisfied	Very satisfied	Very satisfied	Very satisfied
Domestic	Index	91.50	90.63	79.87	83.83	92.84	92.70
	Level	Very satisfied	Very satisfied	General	Satisfied	Very satisfied	Very satisfied

ANTI-CORRUPTION

The Group actively encourages the employees to follow the concept of probity, fairness, honesty in their daily words and deeds, and developed formal "Administrative Measures for Anti-fraud and Whistleblowing Mechanism", "Employee Manual" to guide the conduct and behaviour of employees in the daily operation, which require employees to refuse any corruption, fraud, unfair competition etc. and prohibit conducting any bribery and any acts that are harmful to the Group, environment and society. Meanwhile, the Group also provides detailed rewards and punishment system and reporting manners to ensure that all employees understand and implement the relevant code of conduct and ethics.

The Group complied with relevant laws and regulations relating to anti-corruption, and we did not have any corruption, bribery, extortion, fraud or money laundering during the Reporting Period. The Group will keep abiding by the Company's code of ethics and maintaining our excellent reputation to prevent any corruption in the future.

COMMUNITY

With the concept of "taking from the society and serving the public", the Group is willing to work with all stakeholders to create an environment for "harmonious development of employees, corporation and society".

COMMUNITY INVESTMENT

SOCIAL DONATION

The Group has actively participating in charity activities and our donation to charitable bodies in Tongxiang City has accumulated to more than RMB1 million since 2002 and won the first "Tongxiang Charity Special Contribution Award". In order to plan the Group's social and public welfare undertakings better, the Group has taken environmental protection projects as the key of our public welfare supporting activities to raise the society's awareness of low-carbon environmental protection. Meanwhile, depending on the Group's demand for professionals and the actual needs of the local poverty-stricken students, the Group optionally carries out educational assistance activities.

CARING FOR THE VULNERABLE GROUPS

The Group cares for and helps the vulnerable groups by organizing volunteers to go to the community nursing homes, children's welfare institution, etc. from time to time to help the elderly and children clean up, do housework and chat and play games with them and so on, which could make them feel the love and help from the society.

CONSERVING WATER RESOURCE

The Group actively responds to the local government's requirement of "A total of five water treatment" and donated approximately RMB0.4 million in total included in the water treatment fund by government departments to contribute our strength as a corporate citizen to the construction of "Beautiful Zhejiang".

Corporate Governance Report

The Board is pleased to present the corporate governance report of this Annual Report for the year ended 31 December 2016.

CORPORATE GOVERNANCE PRACTICES

The Company strived 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 principles of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules of the Stock Exchange as its own code of corporate governance. During the year ended 31 December 2016, the Company has complied with the provisions set out in the CG Code.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for developing the corporation governance policies of the Company and performing the following corporate governance duties:

(i) To develop and review of the policies and practices of the corporate governance of the Company;

(ii) To review and monitor the training and continuous professional development of Directors and senior management;

(iii) To review and monitor whether the Company's policies and practices are in compliance with all legal and regulatory requirements;

(iv) To develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the corporate governance report.

The Company will continue to review and improve its corporate governance practices to ensure the compliance of the CG Code.

BOARD

Responsibility

The Board is responsible for the overall leadership of the Group and oversees the strategic decisions and monitors business and performance of the Group. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group. To oversee particular aspects of the Company's affairs, the Board has established three board committees including the audit committee (the "**Audit Committee**"), the remuneration committee (the "**Remuneration Committee**") and the nomination committee (the "**Nomination Committee**") (together, the "**Board Committees**"). The Board has delegated to the Board Committees responsibilities as set out in their respective terms of reference.

Composition of the Board

The Board currently comprises four non-executive Directors (i.e. Mr. Zhang Yuqiang, Mr. Zhang Jiankan, Mr. Tang Hsin-hua and Mr. Wang Yuan), two executive Directors (i.e. Mr. Zhou Tingcai and Ms. Huang Junjun) and three independent non-executive Directors (i.e. Mr. Fang Xianbai, Mr. Pan Fei and Mr. Chen Zhijie). The biographical details of the Directors are set out in the section headed "Directors and Senior Management Profile" of this Annual Report.

For the year ended 31 December 2016 and up to the date of this Annual Report, the Board has complied with the Rules 3.10(1) and 3.10(2) of the Listing Rules which require the appointment of at least three independent non-executive Directors, among which, at least one independent non-executive Director must possess appropriate professional qualifications or accounting or related financial management expertise at any time.

According to Rule 3.10A of the Listing Rules, independent non-executive Directors must at least account for one-third of the Board. Currently, the three independent non-executive Directors account for more than one-third of the number of the Board which is therefore in compliance with the provisions under the Rule 3.10A of the Listing Rules.

The Company has received an annual confirmation from each of its independent non-executive Directors for their independence pursuant to the Listing Rules and the Company considers that all independent non-executive Directors are independent persons according to the independence guidelines set out in Rule 3.13 of the Listing Rules.

Except that Mr. Zhang Yuqiang, the non-executive Director, and Mr. Zhang Jiankan, the non-executive Director, are the relationship of father and son, each of the Directors does not have any personal relationships with any other Directors (including financial, commercial, family or other significant/relevant relationships).

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for performing the duties of the Board efficiently and effectively.

Board diversity policy

The Company understands and believes that diversity in the Board is beneficial for improving the performance of the Company. The Company strived to achieve Board diversity through consideration of certain factors, including but not limited to gender, age, cultural and educational background, race, professional experience, skill, knowledge and term of service. The Company will also consider its business model and design the best composition of the Board from time to time based on its specific needs. The Nomination Committee will continue to monitor implementation of this policy and annually report the composition of the Board in the view of diversity.

Training of Directors

Directors' induction and continuous professional development

Each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. The Company also regularly arranges seminars for Directors to provide updated information of the latest development and changes in the Listing Rules and other relevant laws and regulatory provision from time to time. The Board also regularly obtains updated information regarding the performance, status and prospect of the Company which allow the entire Board and all Directors to perform their duties.

The training received by all Directors in 2016 is as following:

Name of Director	Training received(Note)
Mr. Zhang Yuqiang	✔
Mr. Zhang Jiankan	✔
Mr. Tang Hsin-hua	✔
Mr. Wang Yuan	✔
Mr. Zhou Tingcai	✔
Ms. Huang Junjun	✔
Mr. Fang Xianbai	✔
Mr. Pan Fei	✔
Mr. Chen Zhijie	✔

Note: The training contents received include reading provisions regarding corporation governance, directors' duty and internal control management and participation in talk, forum and conference.

Chairman and general manager

Positions of the chairman of the Board and general manager of the Company were held by Mr. Zhang Yuqiang and Mr. Zhou Tingcai, respectively. The chairman provides leadership and is responsible to formulate overall development strategy and business plan. The general manager focuses on the business development and is responsible for the daily operation and management of the Company.

Appointment and re-appointment of Directors

All executive Directors and non-executive Directors have entered into service contracts with a term of 3 years with the Company which may be terminated in accordance with the respective terms.

All independent non-executive Directors have entered into appointment letters with the Company with a term commencing from 21 December 2015 (i.e. the date on which the Shares were listed on the Stock Exchange) and ending on the day prior to the second session of the annual general meeting, subject to the election by approval at the first session of the annual general meeting.

For the purpose of renewal, on 20 March 2017, each of the independent non-executive Directors (except Mr. Fang Xianbai) has entered into a letter of appointment with the Company. Subject to the approval at the AGM, the term will commence on 22 May 2017. The appointment may be extended for such period as the Company and the independent non-executive Director may agree and may be terminated by either party by giving at least one month's written notice. The independent non-executive Director is subject to retirement by rotation and re-election at the annual general meetings in accordance with the Articles of Association.

The Board shall have the right to appoint any person from time to time to fill in the contemporary vacancy on the Board or act as an additional member of the Board. The Director so appointed to fill in the contemporary vacancy or act as an additional member shall hold office only till the next annual general meeting and shall then be eligible for re-appointment.

According to article 105 of the Articles of Association, all Directors are subject to retirement at an annual general meeting at least once every three years. Retired Directors are eligible for re-appointment and shall continue to act as a Director throughout the meeting at which he/she retires.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition and monitoring the re-election and succession planning of Directors.

Responsibilities of the Board

The functions and duties of the Board include convening Shareholders' meetings, reporting the Board's work at these meetings, implementing resolutions passed at these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for any increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

Compliance with the Model Code

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of the Model Code in the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with such code of conduct for the year ended 31 December 2016.

Liability insurance for the Directors

The Company has purchased liability insurance for the Directors and senior management to provide indemnities in respect of any liability arising from the performance of duties while they act as the Directors and senior management of the Company. However, acts of fraud, breach of duty or breach of trust by an official Director will not be indemnified.

Remuneration of Directors and senior management

The Company has formulated the official and transparent procedures for the remuneration policy of the senior management of the Group. Details of the remuneration of the Directors for the year ended 31 December 2016 are set out in note 13 to the consolidated financial statements.

The remuneration paid to the senior management (exclusive of Directors) for the year ended 31 December 2016 was within the range below:

Range of remuneration	No. of persons
Nil to RMB1,000,000	4
	4

Board Committee

Audit Committee

The Audit Committee comprises three members, namely Mr. FANG Xianbai (chairman), the independent non-executive Director; Mr. Wang Yuan, the non-executive Director and Mr. Pan Fei, the independent non-executive Director. The major responsibilities of the Audit Committee include the followings:

1. to make recommendations to the Board on the appointment, reappointment and removal of the external auditors;

2. to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process;

3. to monitor the integrity of the Company's financial statements and annual reports and accounts, interim reports and, if prepared for publication, quarterly reports, and to review significant comments related to financial reporting therein;

4. to review the Company's financial control, risk management and internal control systems and their implementation;

5. to develop and review the Company's policies and practices on corporate governance and make recommendations thereof to the Board;

6. to review and monitor the compliance of the Company's policies and practices with legal and regulatory requirements;

7. to review the Company's compliance with the CG Code as set out in the Listing Rules and disclosures in the corporate governance report;

8. to consider major investigation findings on risk management and internal control matters on its own initiative or as delegated by the Board and management's response to these findings;

9. to ensure coordination between the works of the internal and external auditors, and to ensure that the internal audit function is operated with adequate resource and has appropriate standing within the Company, and to review and monitor its effectiveness;

10. to review the Group's financial and accounting policies and practices; and

11. to deal with other matters authorised by the Board.

The written terms of reference of the Audit Committee are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2016, the Audit Committee held two meetings, on which the committee mainly reviewed the audited consolidated financial statements, annual results announcement and annual report of the Group for the year ended 31 December 2015, the unaudited financial statements, interim results announcement and interim report of the Group for the six months ended 30 June 2016, and discussed with the external auditor or the Directors and made recommendations on the accounting principles and practices adopted by the Company, the compliance with CG Code by the Company and the effectiveness of the risk management and internal control of the Company disclosed in this Annual Report.

Remuneration committee

The Remuneration Committee comprises three members, namely Mr. Fang Xianbai (chairman), the independent non-executive Director; Mr. Zhang Jiankan, the non-executive Director and Mr. Pan Fei, the independent non-executive Director. The majority of the members of the Remuneration Committee are independent non-executive Directors. The major duties of the Remuneration Committee include:

1. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing those remuneration policies;

2. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

3. to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

4. to make recommendations to the Board on the remuneration of the non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment; and

7. to deal with other matters authorised by the Board.

The written terms of reference of the Remuneration Committee are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2016, the Remuneration Committee held one meeting, on which the committee reviewed and discussed the remuneration policy and structure of the Company, and discussed the remuneration structure and policy for the Directors and senior management and made recommendations to the Board on relevant matters.

Nomination committee

The Nomination Committee comprises three members, namely Mr. Zhang Yuqiang (chairman), the non-executive Director; Mr. Fang Xianbai, the independent non-executive Director and Mr. Chen Zhijie, the independent non-executive Director. The majority of the members of Nomination Committee are independent non-executive Directors. The major duties of the Nomination Committee include the followings:

1. to review the structure, size and composition (including the skills, knowledge, experience and length of service) of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identify individuals suitably qualified to become Board members and select such individuals for directorship or make recommendations thereof to the Board;

3. to assess the independence of independent non-executive Directors;

4. to make recommendations to the Board on the appointment or reappointment of Directors and succession planning for Directors, in particular the chairman and the general manager;

5. to review and monitor the training and continuous professional development of Directors and senior management; and

6. to deal with other matters authorised by the Board.

The written terms of reference of the Nomination Committee are available on the websites of the Stock Exchange and the Company.

For the year ended 31 December 2016, the Nomination Committee held one meeting, on which the committee reviewed the structure and composition of the Board, the qualification of the Directors and senior management and the independence of the independent non-executive Directors.

The Board and Board Committee meeting

The Company adopted a practice to convene Board meetings regularly at least four times per year and roughly on a quarterly basis. Notice of regular Board meeting shall be delivered to all the Directors at least 14 days prior to the holding of such meeting, and the matters will be included in agenda of this regular meeting. For other Board and committee meetings, appropriate notice is generally given. Agendas or relevant documents of the Board or committee shall be posted to the Directors or members of the committee at least 3 days prior to the convening of the meetings to ensure that they have sufficient time to review the relevant documents and are adequately prepared for the meetings. When Directors or committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. The minutes are kept by the joint company secretary of the Company (the "**Joint Company Secretary**") and the copies are circulated to all Directors for reference and record purpose.

The minutes of the Board and Board Committee meetings thoroughly record all matters considered by the Board and Board Committees and decisions made by them, including any problems raised by the Directors. Drafted minutes of each Board and Board Committee meeting are sent to the Directors for their consideration within a reasonable time after the date on which the meeting is held. Directors have a right to review the minutes of the Board meetings.

For the year ended 31 December 2016, the attendance of Directors at the Board and Board Committee meetings and the Annual General Meeting is set out as below:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Non-executive Directors					
Mr. Zhang Yuqiang *(chairman of the Board)*	5/5	–	–	1/1	1/1
Mr. Tang Hsin-hua	4/5	–	–	–	1/1
Mr. Zhang Jiankan	5/5	–	1/1	–	1/1
Mr. Wang Yuan	5/5	2/2	–	–	1/1
Executive Directors					
Mr. Zhou Tingcai	5/5	–	–	–	–
Ms. Huang Junjun	4/5	–	–	–	–
Independent non-executive Directors					
Mr. Fang Xianbai	5/5	2/2	1/1	1/1	1/1
Mr. Chen Zhijie	5/5	–	–	1/1	1/1
Mr. Pan Fei	5/5	2/2	1/1	–	1/1

Directors' responsibilities for financial reporting in respect of financial statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

The management has provided to the Board such explanation and statistics as are necessary to enable the Board to carry out an informed assessment of the Company's financial statements, which are put to the Board for approval. The Company has provided all members of the Board with monthly updates on the Company's performance, positions and prospects.

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 79 to 82 of this Annual Report.

Risk management and internal control

The Company commits to risk-orientated internal control. The Board collectively bears full responsibility for maintaining a sound and effective risk management and internal control measures, while monitoring and ensuring that the Group achieves its operation and management objectives, so as to safeguard the interests of the Shareholders and the assets of the Company from inappropriate use. The Company sets up a series of internal control management systems depending on its actual operation, covering areas including financial monitoring, operation monitoring, compliance monitoring and risk management, and transmits them to relevant parties by ways such as handing down internal documents and staff training. For the purpose of ensuring its consistent effectiveness, the related systems would be updated and revised to tackling the new problems emerged during the course of actual operation.

The establishment of the risk management and internal control systems of the Group mainly focus on the following areas:

Daily risk management: mainly for business and strategic risk management. Each main functional department of the Group set up respective business working procedures systems and business approval authority systems. Through designs for key control procedures, we can identify, confirm, manage and report risks.

Continuous risk monitoring: The professional departments of the Group (such as security (including law) affair department) would support each department in the management structure, ensuring the current risks are handled properly on a cost-effective basis. By complying with relevant laws and regulations, Listing Rules and related guidelines, the professional departments comb out the information disclosure requirements faced by the Group and build respective disclosing procedures by combining different information disclosure objects and information importance level, while continuously reviewing and improving the procedures.

Independent internal audit: The Group sets up internal audit department and continuously optimizes its independent and professional internal audit system. Through professional audit and internal Audit Opinion, the Audit Committee would independently assess and monitor the operation management, business development and financial position of the Group and audit the groundwork and implementation of the Company's strategy, to further promote internal control, financial monitoring and risk management level.

The risk management and internal control systems of the Company aims at managing but not eliminating the risks of failing to achieve business objectives, and can only provide reasonable but not absolute assurance for not having material misrepresentation or lost.

The Board delegates the management of the Company to take responsibility for effective execution of implementing and monitoring internal systems, and perform regular and continuous review on the effectiveness of the risk management and internal monitoring systems of the Company through the Audit Committee.

For the year ended 31 December 2016, the Board has reviewed the effectiveness of the risk management and internal control systems of the Group, which covers areas such as financial monitoring, operation management, legal compliance and risk management functions. The Board considered the operation of current risk management and internal control systems effective and adequate.

REMUNERATION OF AUDITOR

During the year, remuneration paid/payable to the auditor by the Company for professional auditing service amounted RMB2.3 million in aggregate. Apart from this, the Company was not received any other material non-auditing services provided by the auditor and paid for the related service fee.

JOINT COMPANY SECRETARIES

Mr. Yin Hang, the Joint Company Secretary, is responsible for making recommendation to the Board in respect of corporate governance and ensures the compliance with policies, procedures, applicable laws, rules and regulations by the Board.

In order to maintain the sound corporate governance and ensure the compliance with the Listing Rules and applicable Hong Kong Laws, the Company also engaged Ms. Wong Sau Ping, a senior manager of the listing service department of TMF Hong Kong Limited, as the Joint Company Secretary assisting Mr. Yin to perform his duties of the company secretary of the Company. Mr. Yin is the major contact person between her and the Company.

For the year ended 31 December 2016, Mr. Yin and Ms. Wong received not less than 15 hours of relevant professional trainings pursuant to Rule 3.29 of the Listing Rules respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business, performance and strategies. The Company also recognises the importance of disclosure of corporate information in a timely and non-selectively manner, which will enable Shareholders and investors to make the best investment decisions.

The annual general meeting of the Company provides opportunities for direct communications between Shareholders and Directors. The chairman of the Company and all the chairmen of the Board Committees will strive to attend the annual general meeting and answer inquiries raised by the Shareholders. The external auditor of the Company will also attend such general meetings and answer the questions concerning the audit, preparation and the contents of the auditor's report, accounting policies and the independence of the auditor.

The AGM will be held on Monday, 22 May 2017, and the notice of which will be posted to the Shareholders not less than 20 clear business days before the date of the AGM.

To promote effective communication, the Company adopts a Shareholders' communication policy which aims at establishing a sound communication between the Company and Shareholders and maintains a website (www.chinahengshi.com.cn) and inquiry access (tel: +86-573-88051188; e-mail: jack.yin@chinahengshi.com.cn) for investors. The Company shall publish the latest information on its business operation and development, corporate governance practices and other data on its website for public access.

SHAREHOLDERS' RIGHTS

In order to protect the rights and interests of the Shareholders, the Company shall present resolutions in the form of stand-alone motion to the general meeting for considering each of the matters. The resolutions presented to the general meeting for consideration shall be voted in accordance with the Listing Rules, and the voting result shall be published on the websites of the Company and the Stock Exchange in a timely manner after the general meeting.

PROCEDURES TO CONVENE AN EXTRAORDINARY GENERAL MEETING

- According to article 67 and 68 of the Articles of Association, each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting. General meetings may be held in any part of the world as may be determined by the Board.

- The Board may whenever it thinks fit call extraordinary general meetings.

- Any two members or a recognised clearing house (or its nominee) as the member of the Company ("**Qualified Shareholder**") holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Joint Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any matters specified in such requisition, including making proposals or moving a resolution at an extraordinary general meeting.

- Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at such meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an extraordinary general meeting, the agenda proposed to be included and the details of the business(es) proposed to be transacted in the extraordinary general meeting, and must be signed by the Eligible Shareholder(s) concerned.

- The Company will check the Requisition and the identities and the shareholding of the Eligible Shareholders will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Joint Company Secretary will request the Board to convene an extraordinary general meeting and/or include the proposal or the resolution proposed by the Eligible Shareholder at the extraordinary general meeting within 3 months after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an extraordinary general meeting and/or include the proposal or the resolution proposed by the Eligible Shareholder for consideration at the special general meeting.

- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene an extraordinary general meeting, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Articles of Association, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of convening such meeting by the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

MAKING ENQUIRY TO THE BOARD

Shareholders may send their enquiries to the Board in respect of the Company by addressing to the principal place of business of the Company in Hong Kong, the enquiry address is 36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong.

ARTICLES OF ASSOCIATION OF THE COMPANY

The amended and restated Articles of Association was adopted by the Company on 4 December 2015 and took effect on the Listing Date.

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA HENGSHI FOUNDATION COMPANY LIMITED
中國恒石基業有限公司
(incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 83 to 160, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables We identified the valuation of trade receivables as a key audit matter due to the use of judgment and estimates in assessing the recoverability of trade receivables. In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables. At 31 December 2016, the carrying amount of trade receivables is RMB371,795,000 (net of allowance for doubtful debts of RMB21,280,000). Details of the trade receivables are set out in note 23 to the consolidated financial statements.	Our procedures in relation to valuation of trade receivables included: • Obtaining an understanding of how allowance for doubtful debts is estimated by the management and testing the key controls of the Group relating to the preparation of the aging analysis of trade receivables; • Reviewing the aging analysis of the trade receivables throughout the year to understand the settlement patterns by the customers; • Testing the aging analysis of the trade receivables, on a sample basis, to the source documents; and • Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of each individual customer.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Tse Ming Fai.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	**Year ended 31/12/2016 RMB'000**	Year ended 31/12/2015 RMB'000
Revenue	6	**1,236,439**	1,002,901
Cost of sales		**(815,718)**	(704,380)
Gross profit		**420,721**	298,521
Other income	8	**35,648**	15,386
Other gains and losses	9	**37,508**	69,634
Selling and distribution expenses		**(84,224)**	(61,596)
Administrative expenses		**(54,250)**	(29,964)
Research expenditure		**(37,392)**	(32,688)
Other expenses	10	**(34)**	(28,042)
Finance costs	11	**(5,784)**	(21,590)
Profit before tax	12	**312,193**	209,661
Income tax expense	15	**(59,360)**	(28,169)
Profit for the year		**252,833**	181,492
Other comprehensive expense			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		**(42,794)**	(541)
Total comprehensive income for the year		**210,039**	180,951
Profit (loss) for the year attributable to:			
Owners of the Company		**257,787**	181,977
Non-controlling interests		**(4,954)**	(485)
		252,833	181,492
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**213,978**	181,490
Non-controlling interests		**(3,939)**	(539)
		210,039	180,951
Earnings per share – basic (RMB)	17	**0.26**	0.25

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	31/12/2016 RMB'000	31/12/2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**510,597**	547,123
Prepaid lease payments	19	**30,033**	30,809
Deferred tax assets	20	**10,538**	10,406
Deposits paid for acquisition of property, plant and equipment	21	**78,695**	688
		629,863	589,026
CURRENT ASSETS			
Inventories	22	**126,132**	96,697
Prepaid lease payments	19	**776**	776
Trade and other receivables	23	**386,687**	354,859
Bills receivables	24	**36,500**	15,530
Amounts due from related parties	25	**14,401**	21,623
Pledged bank deposits	26	**133,603**	108,834
Bank balances and cash	26	**269,397**	502,428
		967,496	1,100,747
CURRENT LIABILITIES			
Trade and other payables	27	**34,779**	47,030
Bills payables	28	**271,013**	168,509
Amounts due to related parties	25	**11,461**	15,955
Amount due to a shareholder	25	**7**	–
Financial liabilities at fair value through profit or loss ("FVTPL")	29	**–**	1,000
Tax payable		**12,579**	455
Bank borrowings	31	**50,000**	400,000
Deferred revenue	32	**300**	300
		380,139	633,249
NET CURRENT ASSETS		**587,357**	467,498
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,217,220**	1,056,524

Consolidated Statement of Financial Position *(Continued)*

At 31 December 2016

	NOTES	31/12/2016 RMB'000	31/12/2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	20	7,886	2,336
Deferred revenue	32	2,250	2,550
		10,136	4,886
NET ASSETS		1,207,084	1,051,638
CAPITAL AND RESERVES			
Share capital	33	6,207	6,207
Reserves		1,202,665	1,043,885
Equity attributable to owners of the Company		1,208,872	1,050,092
Non-controlling interests		(1,788)	1,546
TOTAL EQUITY		1,207,084	1,051,638

The consolidated financial statements on pages 83 to 160 were approved and authorised for issue by the board of directors of the Company on 20 March 2017 and are signed on its behalf by:

Mr. ZHANG Yuqiang
Director

Mr. ZHANG Jiankan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share Capital RMB'000	Share Premium RMB'000	Statutory Reserve Surplus RMB'000 (note a)	Other Reserve RMB'000	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	455,434	–	26,528	–	65,923	–	(61)	547,824	2,085	549,909
Profit (loss) for the year	–	–	–	–	181,977	–	–	181,977	(485)	181,492
Other comprehensive expense for the year	–	–	–	–	–	–	(487)	(487)	(54)	(541)
Total comprehensive income (loss) for the year	–	–	–	–	181,977	–	(487)	181,490	(539)	180,951
Appropriation to statutory reserve	–	–	25,029	–	(25,029)	–	–	–	–	–
Dividends declared *(note 16)*	–	–	–	–	(147,381)	–	–	(147,381)	–	(147,381)
Proposed 2015 dividends *(note 16)*	–	–	–	–	(54,593)	54,593	–	–	–	–
Capital injection	47,144	–	–	–	–	–	–	47,144	–	47,144
Capital contribution *(note b(i))*	–	–	–	607,109	–	–	–	607,109	–	607,109
Group reorganisation *(note b(ii))*	(502,577)	–	–	(104,532)	–	–	–	(607,109)	–	(607,109)
Issue of new shares to shareholders prior to Global Offering *(note 33(b))*	4,591	602,518	–	(607,109)	–	–	–	–	–	–
Issue of new shares in connection of Global Offering *(defined in Note 1, note 33(c))*	1,615	446,579	–	–	–	–	–	448,194	–	448,194
Shares issue cost	–	(27,179)	–	–	–	–	–	(27,179)	–	(27,179)
At 31 December 2015	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 year	–	–	–	–	257,787	–	–	257,787	(4,954)	252,833
Other comprehensive (expense) income for the year *(note c)*	–	–	–	–	–	–	(43,809)	(43,809)	1,015	(42,794)
Total comprehensive income (expense) for the year	–	–	–	–	257,787	–	(43,809)	213,978	(3,939)	210,039
Appropriation to statutory reserve	–	–	26,336	–	(26,336)	–	–	–	–	–
Payment of 2015 final dividends	–	–	–	–	–	(54,593)	–	(54,593)	–	(54,593)
Proposed 2016 dividends *(note 16)*	–	–	–	–	(88,500)	88,500	–	–	–	–
Deemed acquisition of additional interest in a subsidiary *(note b(iii))*	–	–	–	(605)	–	–	–	(605)	605	–
At 31 December 2016	6,207	1,021,918	77,893	(105,137)	163,848	88,500	(44,357)	1,208,872	(1,788)	1,207,084

Notes:

(a) As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the PRC subsidiaries are 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 subsidiaries 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 represented the net effect of the following:

i. 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;

ii. The paid-in capital of Hengshi Fiberglass of RMB502,577,000 less the consideration of RMB607,109,000 paid for the acquisition of Hengshi Fiberglass as a result of the business combination under common control in April 2015 as a part of group reorganisation; and

iii. On 20 December 2016, Hengshi Fiberglass made a capital contribution amounting to United States Dollar ("USD")500,000 (equivalent to RMB3,448,000) to Hengshi Egypt Fiberglass Fabrics S.A.E ("Hengshi Egypt") in cash, while the remaining two shareholders of Hengshi Egypt, 振石集團華美新材料有限公司 (Zhenshi Group Huamei New Materials Co., Ltd) ("Huamei New Materials") and 浙江華駿投資有限公司 (Zhejiang Huajun Investment Co., Ltd.) ("Zhejiang Huajun"), waived their pre-emptive rights to make capital contributions to Hengshi Egypt. Consequently, the Group's proportion of ownership in Hengshi Egypt had been increased from 90% to 91.25%, while that of Huamei New Materials and Zhejiang Huajun each had been decreased from 5% to 4.375%, respectively.

(c) The other comprehensive expense for the year ended 31 December 2016 represented the net effect of the following:

i. The exchange loss of RMB53,076,000 arising from the advance of USD denominated loan of USD10,000,000 to Hengshi Egypt by Hengshi Fiberglass of which settlement is neither planned nor likely to occur that forms part of the Group's net investment in the foreign.

The exchange rate of Egyptian pound against USD had been significantly depreciated from 1: 0.1279 on 1 January 2016 to 1: 0.0549 on 31 December 2016. The retranslation of this USD denominated loan to the closing rate of Egyptian pound as at 31 December 2016 had resulted in an exchange loss of Egyptian pound 92,003,000 (equivalent to RMB53,076,000, which was charged to other comprehensive income, accordingly.

Subsequently in 2017, the management of the Group has taken necessary procedures to capitalise such loan as the Group's additional capital contribution to Hengshi Egypt. The management of the Group expects the whole process will be completed in the first half of 2017; and

ii. The exchange gain of RMB10,282,000 arising on translating foreign operations for the year ended 31 December 2016.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
Profit before tax	**312,193**	209,661
Adjustments for:		
Allowance for doubtful debts	**6,696**	13,954
Reversal of allowance for doubtful debts	**(6,696)**	(2,774)
Gain on release of financial guarantee contracts	**–**	(65,300)
Allowance for inventories	**2,837**	548
Loss (gain) on financial instruments at FVTPL	**3,000**	(4,800)
Depreciation of property, plant and equipment	**65,235**	54,182
Release of prepaid lease payments	**776**	776
Loss on disposal of property, plant and equipment	**54**	161
Finance costs	**5,784**	21,590
Bank interest income	**(6,059)**	(2,132)
Interest income from loan to a shareholder	**–**	(2,901)
Deferred revenue released as government grants	**(300)**	(150)
Net Gain under the Compensation Agreement (as defined in note 19) received	**(1,045)**	–
Operating cash flows before movement in working capital	**382,475**	222,815
Increase in inventories	**(32,272)**	(14,534)
Increase in trade and other receivables	**(56,242)**	(184,170)
Increase in bills receivables	**(20,970)**	(13,195)
Decrease in amounts due from related parties	**7,222**	48,505
Decrease in amount due from a shareholder	**–**	1,930
(Decrease) increase in trade and other payables	**(9,072)**	21,406
Increase in bills payables	**87,258**	168,044
(Decrease) increase in amounts due to related parties	**(4,580)**	9,598
Decrease in amount due to a shareholder	**–**	(4,664)
Decrease in financial liabilities at FVTPL	**(4,000)**	(9,400)
Cash generated from operations	**349,819**	246,335
Income tax paid	**(43,737)**	(35,352)
NET CASH GENERATED IN OPERATING ACTIVITIES	**306,082**	210,983

Consolidated Statement of Cash Flows *(Continued)*

For the year ended 31 December 2016

	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
Cash flows from investing activities		
Purchase of property, plant and equipment	**(31,180)**	(185,698)
Deposits paid for acquisition of property, plant and equipment	**(78,695)**	(688)
Cash received in respect of the Net Gain under the Compensation Agreement *(as defined in note 19)*	**1,045**	–
Proceeds on disposal of property, plant and equipment	**–**	186
Interest received from bank deposits	**6,059**	2,132
Interest received from a shareholder	**–**	2,901
Advance to related parties	**–**	(509)
Repayment from related parties	**–**	509
Advance to a shareholder	**–**	(170,700)
Repayment from a shareholder	**–**	370,700
Placement of pledged bank deposits	**(1,123,808)**	(324,507)
Withdrawal of pledged bank deposits	**1,099,039**	247,891
NET CASH USED IN INVESTING ACTIVITIES	**(127,540)**	(57,783)
Cash flow from financing activities		
New bank borrowings raised	**280,000**	931,150
Repayment of bank borrowings	**(630,000)**	(951,484)
Interest paid	**(6,235)**	(22,815)
Dividend paid	**(54,593)**	(100,238)
Advance from a shareholder	**7**	1,809
Repayment to a shareholder	**–**	(1,809)
Advance from related parties	**83**	–
Repayment to related parties	**–**	(576)
Consideration paid for acquisition of Hengshi Fiberglass under common control accounted for as deemed distribution	**–**	(607,109)
Capital contribution	**–**	607,109
Issue of new shares in connection with Global Offering	**–**	448,194
Share issue expenses paid	**(977)**	(16,856)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(411,715)**	287,375
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(233,173)**	440,575
Cash and cash equivalents at the beginning of the year	**502,428**	61,741
Effect of foreign exchange rate changes	**142**	112
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**269,397**	502,428

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 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 principle activities of its subsidiaries are described in note 42.

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.

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.

2. BASIS OF PREPARATION *(Continued)*

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

As part of the group reorganisation, on 15 April 2015, Huajin Capital entered into an equity transfer agreement to acquire all the shares of Hengshi Fiberglass from its then shareholders for a total cash consideration of US$99,173,000 (equivalent to RMB607,109,000) ("Hengshi Fiberglass Acquisition"). Based on subsequent approvals by the relevant government authorities, the Hengshi Fiberglass Acquisition was completed in April 2015, upon which Hengshi Fiberglass became a wholly-owned subsidiary of Huajin Capital.

To facilitate the Hengshi Fiberglass Acquisition, the shareholders of the Company in April 2015 made capital contribution of US$99,173,000 (equivalent to RMB607,109,000) to the Company and was credited in other reserve.

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

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The Group has applied the amendments to IAS 1 *Disclosure Initiative* for the first time in the current year. The amendments to IAS 1 clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

The Group has applied these amendments retrospectively. The grouping and ordering of certain notes have been revised to give prominence to the areas of the Group's activities that management considers to be most relevant to an understanding of the Group's financial performance and financial position. Specifically, information to capital risk management and financial instruments was reordered to note 37 while information in relation to revenue and segment was reordered to notes 6 and 7, respectively. Other than the above presentation and disclosure changes, the application of the amendments to IAS1 has not resulted in any impact on the financial performance or financial position of the Group in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

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

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

In April 2016, IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(Continued)*

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Under IFRS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB2,600,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of the reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 "*Share-based Payment*", leasing transactions that are within the scope of IAS 17 *"Leases"*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 "*Inventories*" or value in use in IAS 36 "*Impairment of Assets*".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiary to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity including reserves and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholders.

The net assets of the combining entities or businesses are consolidated using the existing book value from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling parties' interest.

The consolidated financial statement of profit or loss and other comprehensive income includes the results of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings, leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than that entity's functional currencies (foreign currencies) are recorded in the respective functional currencies (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purpose of presenting the consolidated financial statements the assets and liabilities of the Group's foreign operations is translated into RMB using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the date of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (and attributed to non-controlling interests as appropriate).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them, if any and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, government-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the amount of benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Research expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is calculated using the weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions *(Continued)*

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of loans and receivables, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

Financial liability as FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising from remeasurement recognised in profit or loss in the period in which they arise. Fair value is determined in the manner described in note 37.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

Other financial liabilities

Other financial liabilities including trade and other payables, bills payables, amounts due to related parties, amount due to a shareholder and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Equity instruments

An equity instruments is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from the end of the reporting period.

Estimated useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management estimates the useful lives of various categories of property, plant and equipment according to the experiences over the usage of them and also by reference to the relevant industrial norm. If the actual useful lives of them are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful life. As at 31 December 2016, the carrying amount of property, plant and equipment was RMB510,597,000 (31 December 2015: RMB547,123,000).

Estimated allowance for doubtful debt

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition, where applicable). Where the future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss / further impairment loss may arise.

As at 31 December 2016, the carrying amount of trade receivables was RMB371,795,000 (net of allowance for doubtful debt of RMB21,280,000) (31 December 2015: RMB343,958,000 (net of allowance for doubtful debt of RMB21,280,000).

As at 31 December 2016, the carrying amount of amounts due from related parties was RMB14,401,000 (without allowance for doubtful debt) (31 December 2015: RMB21,623,000 (without allowance for doubtful debt)).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated allowance for inventories

The Group regularly reviews whether there are any indications of write-down of inventories if the carrying amount of an inventory is lower than its net realisable value. The Group tests annually for the write-down of inventories. The net realisable value have been determined based on the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group also assessed the net realisable value by taking into account whether the cost of inventories may be recoverable by assessing if those inventories are damaged, wholly or partially obsolete, or if their selling prices have declined.

As at 31 December 2016, the carrying amount of inventories was RMB126,132,000 (net of allowance for write-down of RMB9,291,000) (31 December 2015: RMB96,697,000 (net of allowance for write-down of RMB8,489,000)).

6. REVENUE

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

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Multi-axial fabrics	**828,489**	721,784
Uni-direction fabrics	**320,950**	226,026
Woven roving combo mat	**33,557**	19,724
Stitched mat	**6,779**	4,633
E/PP compofil fabrics	**46,664**	30,734
Total	**1,236,439**	1,002,901

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

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Products specified in contracts for wind turbine blade sector	**1,042,919**	890,539
Other	**193,520**	112,362
Total	**1,236,439**	1,002,901

7. SEGMENT INFORMATION

The Group has been operating in one operating and reportable segment, being manufacture and sale of fiberglass fabrics. The management of the Group, being the General Manager who is the chief operating decision maker, to make decisions based on the 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 described in note 4.

Segment assets and liabilities

No analysis of the Group's assets and liabilities by operating and reportable segments is disclosed as it is not regularly provided to the chief operating decision maker for review.

The Group's information about its non-current assets, excluding deferred tax assets, by location of assets are detailed below.

	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
The PRC	**599,558**	547,865
Other	**19,767**	30,755
Total	**619,325**	578,620

Revenue from major products

Details of the revenue from major products are set out in note 6.

7. SEGMENT INFORMATION *(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 year.

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Overseas markets		
Europe	**372,255**	281,032
North America	**252,056**	152,925
Asia *(note a)*	**81,970**	53,007
Latin America	**44,289**	21,377
Australia	**645**	153
Africa	**294**	329
	751,509	508,823
PRC market *(note b)*	**484,930**	494,078
Total	**1,236,439**	1,002,901

Notes:

(a) Asia includes Hong Kong, Macau and Taiwan, but exclude the PRC.

(b) PRC market excludes Hong Kong, Macau and Taiwan.

7. SEGMENT INFORMATION *(Continued)*

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 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Customer A	**221,934**	190,712
Customer B	**140,683**	111,511
Customer C	***note***	107,907
Customer D	**123,714**	150,101
	486,331	560,231

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

8. OTHER INCOME

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Bank interest income	**6,059**	2,132
Interest income from loan to a shareholder *(note a)*	**–**	2,901
Government grants *(note b)*	**22,922**	4,332
Gain on scrap sales	**4,752**	5,746
Rental income *(note c)*	**–**	215
Sundry income	**1,915**	60
	35,648	15,386

Notes:

(a) Details of interest income from loan to a shareholder for the year end 31 December 2015 were set out in note 41. There was no loan advanced to the shareholder as at 31 December 2015 and 2016.

(b) The government grants represented the amount received from the local government by Hengshi Fiberglass. During the year, government grants include (i) RMB22,622,000 (2015: RMB4,182,000) were unconditional and represented incentive for business development and (ii) RMB300,000 (2015: RMB150,000) was assets-related subsidy released to profit or loss during the year (Details as set out in Note 32).

(c) Rental income for the year ended 31 December 2015 refers to the lease agreement 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") in 2015 which was early terminated in October 2015 and the Group no longer earned rental income since then.

9. OTHER GAINS AND LOSSES

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
(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 under the Compensation Agreement (as defined in note 19) received	**1,045**	–
Loss on disposal of property, plant and equipment	**(54)**	(161)
Foreign exchange gain (loss), net	**39,517**	13,649
	37,508	69,634

10. OTHER EXPENSES

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Listing expenses	**–**	27,856
Rental related expense	**–**	152
Others	**34**	34
	34	28,042

11. FINANCE COSTS

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Interest on bank borrowings wholly repayable within five years	**5,784**	23,028
Less: amounts capitalised in construction in progress	**–**	(1,438)
	5,784	21,590

The weighted average capitalisation rate was 6.23% for the year ended 31 December 2015. There are no borrowings used to finance the construction in progress for the year ended 31 December 2016.

12. PROFIT BEFORE TAX

	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
Profit before tax has been arrived at after charging (crediting)		
Auditors' remuneration	**2,250**	1,550
Directors' emoluments *(note 13)*	**4,625**	2,599
Other staff costs	**91,498**	78,850
Retirement benefit schemes contribution for other staff	**5,291**	4,238
Total staff costs	**101,414**	85,687
Depreciation of property, plant and equipment	**65,235**	54,182
Release of prepaid lease payments	**776**	776
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 rented premises	**4,781**	1,577

13. DIRECTORS' EMOLUMENTS

For the year ended 31 December 2015, the following represented the directors of the Hengshi Fiberglass who had become the directors of the Company after the incorporation of the Company in February 2015.

The emoluments paid or payable to each of the directors by the Group during the both years are as follows.

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance Related bonus *(note e)* *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total emoluments *RMB'000*
Year ended 31 December 2016					
Executive directors					
Mr. Zhou Tingcai *(note a)*	–	661	68	14	743
Ms. Huang Junjun *(note a)*	–	434	66	22	522
	–	1,095	134	36	1,265

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance Related bonus *(note e)* *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total emoluments *RMB'000*
Non-executive directors					
Mr. Zhang Yuqiang *(note b)*	3,000	–	–	–	3,000
Mr. Tang Hsinhua *(note b)*	–	–	–	–	–
Mr. Wang Yuan *(note b)*	–	–	–	–	–
Mr. Zhang Jiankan *(note c)*	–	–	–	–	–
	3,000	–	–	–	3,000

The non-executive director's emoluments shown above were mainly for Mr. Zhang Yuqiang's service as a director of the Company.

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance Related bonus *(note e)* *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total emoluments *RMB'000*
Independent Non-executive directors					
Mr. Fang Xianbai *(note d)*	120	–	–	–	120
Mr. Chen Zhijie *(note d)*	120	–	–	–	120
Mr. Pan Fei *(note d)*	120	–	–	–	120
	360	–	–	–	360

13. DIRECTORS' EMOLUMENTS *(Continued)*

	Fee	Salaries and other benefits	Performance Related bonus *(note e)*	Retirement benefits schemes contribution	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2015					
Executive directors					
Mr. Zhou Tingcai *(note a)*	–	402	23	14	439
Ms. Huang Junjun *(note a)*	–	338	55	17	410
Mr. Zhang Yuqiang *(note b)*	–	–	–	–	–
Mr. Zhang Jiankan *(note c)*	–	–	–	–	–
	–	740	78	31	849

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

	Fee	Salaries and other benefits	Performance Related bonus *(note e)*	Retirement benefits schemes contribution	Total emoluments
Non-executive directors					
Mr. Zhang Yuqiang *(note b)*	1,750	–	–	–	1,750
Mr. Tang Hsinhua *(note b)*	–	–	–	–	–
Mr. Wang Yuan *(note b)*	–	–	–	–	–
Mr. Zhang Jiankan *(note c)*	–	–	–	–	–
	1,750	–	–	–	1,750

The non-executive director's emoluments shown above were mainly for Mr. Zhang Yuqiang's service as a director of the Company.

	Fee	Salaries and other benefits	Performance Related bonus *(note e)*	Retirement benefits schemes contribution	Total emoluments
Independent Non-executive directors					
Mr. Fang Xianbai *(note d)*	–	–	–	–	–
Mr. Chen Zhijie *(note d)*	–	–	–	–	–
Mr. Pan Fei *(note d)*	–	–	–	–	–
	–	–	–	–	–

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

13. DIRECTORS' EMOLUMENTS *(Continued)*

(a) Mr. Zhou Tingcai was appointed as General Manager of the Hengshi Fiberglass in November 2014 and further appointed as an executive director of the Company in May 2015. Ms. Huang Junjun was appointed as an executive director of the Company and Deputy General Manager of Hengshi Fiberglass in May 2015.

(b) Mr. Zhang Yuqiang was an executive director of Hengshi Fiberglass in 2014 and he was re-designated as Chairman and non-executive director of the Company in February 2015, while Mr. Tang Hsinhua was an executive director of Hengshi Fiberglass, and was appointed as non-executive director of the Company in May 2015. Mr. Wang Yuan was appointed as non-executive director of the Company in May 2015.

(c) Mr. Zhang Jiankan was appointed as an executive director of Hengshi Fiberglass on 11 September 2013. He was re-designated as a non-executive director of the Company in February 2015.

(d) Mr. Fang Xianbai, Mr. Chen Zhijie and Mr. Pan Fei were appointed as independent non-executive directors in May 2015.

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

Some of the directors' emoluments during the year ended 31 December 2015 were borne by the Zhenshi Holding Group Co., Ltd. ("Zhenshi Group") for the services provided to Zhenshi Group and its subsidiaries and the Group as a whole and there was no reasonable basis to allocate the remuneration related to services provided to the Group during the year end 31 December 2015.

All of the directors emoluments during the year ended 31 December 2016 were borne by the Group.

No remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office in both years. None of the directors of Company waived any emoluments in both years.

14. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2015: three) directors, details of whose emolumnets are set out in note 13 above. Details of the remuneration for the year of remaining two (2015: two) highest paid employee who are neither directors nor chief executives of the Company are as follow.

	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
Salaries and other benefits	**631**	548
Performance related bonus *(note)*	**57**	71
Retirement benefits schemes contribution	**43**	23
Total	**731**	642

Note:

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

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	Year ended 31/12/2016	Year ended 31/12/2015
Nil to HK$1,000,000	**2**	2

No remuneration was paid to the five individuals with the highest emoluments of the Group as an inducement to join or upon joining the Group or as compensation for loss of office during both years. None of them waived any emoluments during both years

15. INCOME TAX EXPENSE

	Year ended 31/12/2016 RMB'000	Year ended 31/12/2015 RMB'000
Current tax		
Enterprise Income Tax (the "EIT") in the PRC	**48,020**	26,582
Other jurisdictions	**672**	–
Withholding tax paid	**6,066**	–
	54,758	26,582
(Over) under provision in prior years in the PRC	**(396)**	961
	54,362	27,543
Deferred tax charge *(note 20)*	**4,998**	626
	59,360	28,169

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31/12/2016 RMB'000	Year ended 31/12/2015 RMB'000
Profit before tax	**312,193**	209,661
Tax at PRC EIT rate of 25% (2015: 25%)	**78,048**	52,415
Tax effect of expenses not deductible for tax purposes	**16,006**	16,925
Tax effect attributable to the additional qualified tax deduction relating to research and development costs	**(250)**	(500)
Tax effect of income not taxable for tax purpose	**(14,065)**	(26,620)
Withholding tax on undistributed earnings of PRC subsidiary provided *(note)*	**5,550**	2,336
Withholding tax paid	**6,066**	–
Income tax at concessionary rate	**(30,774)**	(17,348)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(825)**	–
(Over) under provision in prior years	**(396)**	961
Income tax expense	**59,360**	28,169

15. INCOME TAX EXPENSE *(Continued)*

Note:

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 subsidiaries to offshore group entities in respect of the undistributed profits attributable to the Group as earned by the Group's PRC subsidiaries 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 entities.

Certain subsidiaries are located in United States of America ("USA"), Egypt and Hong Kong, of which corporate tax are calculated at the rates prevailing in the relevant jurisdictions.

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 subsidiaries is 25%.

Provision for the PRC Enterprise Income Tax for the year was made based on the estimated assessable profits calculated in accordance with the relevant income tax laws, and regulations applicable to the subsidiaries operated in the PRC.

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

16. DIVIDENDS

Dividends in 2015 represented the dividends declared by Hengshi Fiberglass totaling RMB52,381,000 and RMB95,000,000 to its then shareholders prior to the completion of the group reorganisation on 25 February 2015 and 14 April 2015, respectively, out of which amounting to RMB47,144,000 were reinvested by its then shareholders and transferred to capital of Hengshi Fiberglass on 24 March 2015. The rest of the declared dividend were paid to its then shareholders.

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 proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

17. EARNINGS PER SHARE

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

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**257,787**	181,977
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000,000**	741,729,161

The weighted average number of ordinary shares for the purpose of basic earnings per share for the years ended 31 December 2015 is calculated based on the assumption that the current group structure has been in existence and remained unchanged throughout the years or since their respective dates of incorporation or establishment where this is a shorter period, after take into consideration the 749,900,000 ordinary new shares issued on 17 August 2015 due to capitalisation issue and the 250,000,000 ordinary new shares issued to the public arising from the Global Offering.

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

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2015	122,501	439,045	328	1,696	121,954	685,524
Additions	973	10,240	188	1,498	145,885	158,784
Transfers	48,097	112,024	–	1,376	(161,497)	–
Disposals	–	(243)	(328)	(7)	–	(578)
Exchange adjustment	–	–	–	–	(31)	(31)
At 31 December 2015	171,571	561,066	188	4,563	106,311	843,699
Additions	1,440	10,702	3,802	2,304	27,115	45,363
Transfers	(2,403)	90,557	27	374	(88,555)	–
Disposals	(354)	(350)	–	(4)	–	(708)
Exchange adjustment	(1,618)	(661)	(101)	(365)	(14,011)	(16,756)
At 31 December 2016	168,636	661,314	3,916	6,872	30,860	871,598
DEPRECIATION						
At 1 January 2015	30,054	210,875	164	1,532	–	242,625
Provided for the year	6,109	47,757	37	279	–	54,182
Eliminated on disposals	–	(45)	(180)	(6)	–	(231)
At 31 December 2015	36,163	258,587	21	1,805	–	296,576
Provided for the year	8,401	55,888	297	649	–	65,235
Eliminated on disposals	(354)	(297)	–	(3)	–	(654)
Exchange adjustment	(72)	(34)	(12)	(38)	–	(156)
At 31 December 2016	44,138	314,144	306	2,413	–	361,001
CARRYING VALUE						
At 31 December 2015	135,408	302,479	167	2,758	106,311	547,123
At 31 December 2016	124,498	347,170	3,610	4,459	30,860	510,597

The Group had pledged certain of its property, plant and equipment to secure general banking facilities granted to the Group as at 31 December 2016 and 2015. Details are set out in note 38.

18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, after taking into account their estimated residual values, using the straight-line method and at the following rates per annum.

Buildings	4.75%
Machinery and equipment	9.50-20.00%
Motor vehicles	9.50%
Furniture and office equipment	19.00%

During the year ended 31 December 2016, the Group also purchased machinery and equipment totaling RMB2,123,000 (2015: RMB9,365,000) from related parties. Details are set out in note 41.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land interests in the PRC held under medium-term land use rights.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Analysed for the reporting purpose as:		
Non-current portion	**30,033**	30,809
Current portion	**776**	776
	30,809	31,585

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

The Group had pledged certain of its prepaid lease payments in respect of the leasehold land interests to secure general banking facilities granted to the Group. Details are set out in note 38.

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.

19. PREPAID LEASE PAYMENTS *(Continued)*

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 had 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 year, the compensation and necessary costs for the Auction has been finalised and approved by the relevant government authority and Hengshi Fiberglass received the Net Gain of RMB1,045,000 and was credited to profit or loss, accordingly.

20. DEFERRED TAX ASSETS (LIABILITIES)

For the purpose of presentation in the consolidated statements of financial position, the following is an analysis of the deferred tax balances in the consolidated statements of financial position for financial reporting purposes.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Deferred tax assets	**10,538**	10,406
Deferred tax liabilities	**(7,886)**	(2,336)
	2,652	8,070

20. DEFERRED TAX ASSETS (LIABILITIES) *(Continued)*

The following are the deferred tax assets (liabilities) recognised and movements thereon:

	Financial instruments at FVTPL *RMB'000*	Allowance for doubtful debts *RMB'000*	Allowance for inventories *RMB'000*	Depreciation of property plant and equipment *RMB'000*	Tax loss *RMB'000*	Withholding tax on undistributed profits *RMB'000*	Others *RMB'000*	Total *RMB'000*
At 1 January 2015	2,280	1,515	1,333	1,957	182	–	1,455	8,722
(Charged) credit to profit or loss	(2,130)	1,677	(60)	495	1,400	(2,336)	328	(626)
Exchange adjustments	–	–	–	–	(26)	–	–	(26)
At 31 December 2015	150	3,192	1,273	2,452	1,556	(2,336)	1,783	8,070
(Charged) credit to profit or loss	(150)	–	120	358	(1,136)	(5,550)	1,360	(4,998)
Exchange adjustments	–	–	–	–	(420)	–	–	(420)
At 31 December 2016	–	3,192	1,393	2,810	–	(7,886)	3,143	2,652

There were no other significant unrecognised temporary differences for the years ended 31 December 2015 and 2016.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation of RMB7,886,000 (2015: RMB2,336,000) has been provided in respect of the temporary differences associated with the undistributed profits earned by the PRC subsidiary, Hengshi Fiberglass, as at 31 December 2016 at the applicable withholding tax rate of 10%. Deferred taxation has not been provided in respect of temporary differences attributable to the undistributed profits earned by Hengshi Fiberglass as at 31 December 2016 was RMB527,182,000 (2015: RMB388,339,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Deposits paid for acquisition of property, plant and equipment	78,695	688

During the year end 31 December 2016, the Group entered into an agreement with Zhenshi Group to acquire certain office units of an office building located in Zhejiang Province, the PRC, which is currently under development, for a total consideration of RMB75,891,000. As at 31 December 2016, a deposit of RMB70,000,000 has been placed by the Group to Zhenshi Group. The office units will be transferred to the Group upon completion of development. The management of the Group expects the development of the office building would be completed and transferred to the Group in 2018.

The remaining balance of RMB8,695,000 as of 31 December 2016 (31 December 2015: RMB688,000) represents the partial payments made by the Group for the acquisition of machinery, of which would be transferred to property, plant and equipment when the machinery was installed and put into use.

The related capital commitment is set out in note 36.

22. INVENTORIES

	31/12/2016	31/12/2015
	RMB'000	RMB'000
Raw materials	14,559	17,997
Work in progress	14,353	12,365
Finished goods	97,220	66,335
	126,132	96,697

During the year ended 31 December 2016, the Group recorded write-downs of inventories in the amount of RMB2,837,000 (2015: RMB548,000) and such amounts had been included in cost of sales for the years.

23. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Trade receivables	**393,075**	365,238
Less: allowance for doubtful debts	**(21,280)**	(21,280)
	371,795	343,958
Prepayments	**3,369**	668
Other taxes recoverable	**2,818**	9,413
Deposits	**1,302**	311
Other receivables *(note)*	**7,403**	509
	14,892	10,901
Trade and other receivables	**386,687**	354,859

Note: Other receivables included mainly advances to employees 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 approximate the revenue recognition date.

	31/12/2016	31/12/2015
	RMB'000	*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
	371,795	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.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's trade receivable balance are trade receivables with a carrying amount of RMB221,098,000 (31 December 2015: RMB186,796,000) as at 31 December 2016, which are neither past due nor impaired. The management considers that these trade receivables are of good quality given the continuous settlement from customers throughout the year.

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.

	31/12/2016 ***RMB'000***	31/12/2015 *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
	150,697	157,162

Movements in the allowance for doubtful debts

	Year ended **31/12/2016** ***RMB'000***	Year ended 31/12/2015 *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)
Balance at the end of year	**21,280**	21,280

Included in the balance of allowance for doubtful debts are individually impaired trade receivables in full with an aggregate balance of RMB16,479,000 (31 December 2015: RMB15,843,000) as at 31 December 2016. With reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Group does not hold any collateral over these balances.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade receivables are the following amounts denominated in currencies other than the functional currencies of the group entities which they relate.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
USD	144,580	113,287
EUR	12,514	1,357
	157,094	114,644

24. BILLS RECEIVABLES

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

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Within 90 days	19,000	12,000
91 to 180 days	12,500	3,500
Over 180 days	5,000	30
	36,500	15,530

The amounts of bills receivables which had been endorsed and transferred to the suppliers to settle the payables were RMB162,862,000 (31 December 2015: RMB213,369,000) as at 31 December 2016.

Details of the arrangement were set out in note 40.

25. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SHAREHOLDER

(A) Amounts due from related parties:

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Trade related	**14,401**	21,623

Trade related balances:

Particulars of the amounts due from related parties of which are trade related are as follows.

Name	*Relationship Notes*	**Year ended 31/12/2016** ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Zhenshi Group (HK) Sinosia Technology Company Limited ("Sinosia Technology")	(i)	**8,629**	12,493
Zhenshi Spain S.A. ("Zhenshi Spain")	(i)	**668**	4,787
Inspirock Hotel Co., LTD.# (振石大酒店有限公司) ("Inspirock Hotel")	(i)	**59**	2
Jushi France, SAS ("Jushi France")	(ii)	**36**	672
Temax Italia S.R.L. ("Temax Italia")	(ii)	**192**	194
Jushi Singapore Pte. Ltd. ("Jushi Singapore")	(ii)	**–**	180
Jushi India FRP Accessories ("Jushi India")	(ii)	**466**	216
Jushi Canada Fiberglass Co., Ltd. ("Jushi Canada")	(ii)	**8**	86
Jushi Group (BZ) Sinosia Compositos Mat ("Jushi BZ")	(ii)	**3,127**	–
Jushi Group (HK) Sinosia Compositos Mat ("Jushi HK")	(ii)	**289**	–
Jushi Group (SA) Sinosia Compositos Mat ("Jushi SA")	(ii)	**4**	–
Jushi Spain, S.A. ("Jushi Spain")	(ii)	**923**	3
Zhenshi Group	(iv)	**–**	2,990
		14,401	21,623

25. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SHAREHOLDER *(Continued)*

(A) Amounts due from related parties: *(Continued)*

Trade related balances: *(Continued)*

The Group allows a credit period ranging from 30 to 120 days to its related parties. The following is an aged analysis of amounts due from related parties, presented based on the invoice dates, at the end of years.

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
Within 90 days	4,638	5,409
91 to 180 days	478	6,368
181 days to 1 year	8,617	2,968
Over 1 year	668	6,878
	14,401	21,623

Included in the Group's amounts due from related parties are trade related receivable with a carrying amount of RMB4,579,000 (31 December 2015: RMB6,674,000) as at 31 December 2016, which are neither past due nor impaired. The management considers that these trade receivables are of good quality given the continuous settlement from the related parties.

The following is an aged analysis of trade related receivables with related parties 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.

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
Within 90 days	59	1,422
91 to 180 days	478	3,681
181 days to 1 year	8,617	2,968
Over 1 year	668	6,878
	9,822	14,949

25. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SHAREHOLDER *(Continued)*

(B) Amounts due to related parties:

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
Trade related	11,375	15,955
Non-trade related	86	–
	11,461	15,955

Trade related balances:

Particulars of the amounts due to related parties of which are trade related are as follows.

Name	*Relationship Notes*	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
Yushi International	(i)	6,503	11,524
Tongxiang Huarui Automatic Control Technology and Equipment Co., Ltd..# (桐鄉華鋭自控技術裝備) ("Tongxiang Huarui")	(i)	–	11
Jushi USA Fiberglass Co., Ltd ("Jushi USA")	(ii)	255	49
P-D Jushi Interglas Co., Ltd.# (巨石攀登電子基材有限公司) ("P-D Jushi")	(ii)	–	84
Jushi Japan Co., Ltd. ("Jushi Japan")	(ii)	–	226
Jushi Group Co., Ltd.# (巨石集團有限公司) ("Jushi Group")	(ii)	–	2,479
Jushi Egypt for Fiberglass industry S.A.E. ("Jushi Egypt")	(ii)	122	192
Zhenshi (US) International Trading Limited ("Zhenshi US")	(ii)	–	119
Shanghai Tianshi International Logistics Co., Ltd.# (上海天石國際貨運代理有限公司) ("Shanghai Tianshi")	(iii)	4,487	657
Marquis Logistics, INC. ("Marquis Logistics")	(iii)	8	262
Zhenshi Group	(iv)	–	352
		11,375	15,955

25. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SHAREHOLDER *(Continued)*

(B) Amounts due to related parties: *(Continued)*

Trade related balances: *(Continued)*

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

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
Within 90 days	11,375	15,604
91 to 180 days	–	198
181 days to 1 year	–	153
	11,375	15,955

Non-trade related balances:

Particulars of the amount due to a related party of which is non-trade related are as follows.

Name	*Relationship Note*	Year ended 31/12/2016 *RMB'000*	Year ended 31/12/2015 *RMB'000*
Sinosia Technology	(i)	86	–

The amount due was unsecured, interest free and repayable on demand.

(C) Amount due to a shareholder:

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
Non-trade related	7	–

25. AMOUNTS DUE FROM (TO) RELATED PARTIES/A SHAREHOLDER *(Continued)*

(C) Amount due to a shareholder: *(Continued)*

Non-trade related balance:

Particulars of the amount due to a shareholder of which are non-trade related are as follows.

Name	*Relationship Note*	**Year ended 31/12/2016** ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Huakai Investment	(v)	**7**	–

The amount due was unsecured, interest free and repayable on demand.

\# English translated name is for identification purpose only.

Notes:

(i) The management considers these entities related as Mr. Zhang Yuqiang, who is one of the Controlling Shareholders of the Group, has controlling interest in these entities.

(ii) The management considers these entities related as Mr. Zhang Yuqiang has significant influence on these entities.

(iii) The management considers this entity related 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.

(v) The entity became the then shareholders of the Company upon the completion of group reorganisation in April 2015 and any balances with them were transferred to amounts due from a shareholder since then.

Included in amounts due from (to) related parties, amounts due to a shareholder are the following amounts denominated in currencies other than the functional currencies of the Group.

	Amounts due from related parties		**Amounts due to related parties/a shareholder**	
	31/12/2016 ***RMB'000***	31/12/2015 *RMB'000*	**31/12/2016** ***RMB'000***	31/12/2015 *RMB'000*
USD	**14,342**	18,629	**10,748**	5,499
EUR	**–**	–	**249**	648
	14,342	18,629	**10,997**	6,147

26. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits with original maturity of more than three months carried interest at fixed rates ranging from nil to 3.25% (2015: from nil to 3.25%) per annum. The bank deposits have been pledged to secure the Group's issuance of short-term bills payables and foreign currency forward contracts and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payables and foreign currency forward contracts.

Bank balances

Bank balances carried interest at prevailing market rates ranging from nil to 0.39% (2015: from nil to 0.39%) per annum.

At the end of the years, included in pledged bank deposits and bank balances and cash above are the following amounts denominated in currencies other than the functional currencies of the group entities.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
HKD	**931**	256,579
USD	**81,266**	22,801
EUR	**29,498**	4,168
JPY	**4**	3
	111,699	283,551

27. TRADE AND OTHER PAYABLES

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
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
Trade and other payables	**34,779**	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 years.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
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
	9,105	6,821

27. TRADE AND OTHER PAYABLES *(Continued)*

Included in trade and other payables are the following amounts denominated in currencies other than the functional currencies of the group entities.

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
USD	626	15,174
HKD	252	795
	878	15,969

28. BILLS PAYABLES

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

	31/12/2016 *RMB'000*	31/12/2015 *RMB'000*
Within 30 days	82,757	71,302
31 to 60 days	48,844	26,524
61 days 90 days	34,571	20,390
91 to 180 days	104,841	50,293
	271,013	168,509

As at 31 December 2016, bills payables amounted to RMB50,000, RMB8,407,000, RMB1,116,000, RMB19,415,000 and RMB192,176,000 are issued to Jushi Group Jiujiang Co., Ltd. (巨石集團九江有限公司) ("Jushi Jiujiang"), Jushi Group, Tongxiang Huarui, Yushi International, China Jushi Co., LTD. (中國巨石股份有限公司) ("China Jushi"), for the settlement of raw material and services from which the Group purchased and received.

As at 31 December 2015, bills payables amounted to RMB115,169,000, RMB12,754,000, RMB5,856,000, RMB2,487,000, RMB2,137,000, RMB150,000 and RMB67,000 are issued to China Jushi, Jushi Group, Yushi International, P-D Jushi, Jushi Jiujiang, Jiujiang Yushi International Logistics Co., Ltd. (九江宇石國際物流有限公司) ("Jiujiang Yushi") and Tongxiang Huarui for the settlement of raw material and services from which the Group purchased and received.

29. FINANCIAL LIABILITIES AT FVTPL

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Foreign currency forward contracts classified as financial liabilities at FVTPL	–	1,000

There are no unsettled foreign currency forward contracts held by the Group as at 31 December 2016. Major terms of the foreign currency forward contracts, which were all settled on a gross basis, outstanding at the end of 31 December 2015 were as follows.

As at 31 December 2015

Notional amount	**Maturity**	**Reference exchange rate**
USD 3,000,000	From 4 to 29 January 2016	Sell USD/Buy RMB at 6.4671
USD 3,000,000	From 4 to 29 February 2016	Sell USD/Buy RMB at 6.4815
USD 3,400,000	From 1 to 31 March 2016	Sell USD/Buy RMB at 6.4934
USD 3,400,000	From 1 to 29 April 2016	Sell USD/Buy RMB at 6.5040
USD 3,400,000	From 4 to 31 May 2016	Sell USD/Buy RMB at 6.5150
USD 3,400,000	From 1 to 30 June 2016	Sell USD/Buy RMB at 6.5275
USD 3,400,000	From 1 to 29 July 2016	Sell USD/Buy RMB at 6.5379
USD 3,400,000	From 1 to 31 August 2016	Sell USD/Buy RMB at 6.5492
USD 3,400,000	From 1 to 30 September 2016	Sell USD/Buy RMB at 6.5606
USD 3,400,000	From 10 to 31 October 2016	Sell USD/Buy RMB at 6.5751
USD 3,400,000	From 1 to 30 November 2016	Sell USD/Buy RMB at 6.5833
USD 3,400,000	From 1 to 30 December 2016	Sell USD/Buy RMB at 6.5957

30. PROVISIONS

	Financial Guarantee Contracts *RMB'000* *(note)*
At 1 January 2015	65,300
Release of obligation recognised in profit or loss	(65,300)
At 31 December 2015 and 2016	–

Note: The amounts represented the adjustment in relation to the financial guarantee contracts in favour of banks provided by the Group to Zhenshi Group and its other related 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 year ended 31 December 2015.

31. BANK BORROWINGS

	31/12/2016 ***RMB'000***	31/12/2015 *RMB'000*
Bank borrowings	**50,000**	400,000

31. BANK BORROWINGS *(Continued)*

The bank borrowings were guaranteed and secured by:

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Unguaranteed and secured by property plant and equipment and prepaid lease payments owned by the Group *(Note 38)*	**50,000**	220,000
Unguaranteed and unsecured	**–**	180,000
	50,000	400,000
The bank borrowings comprise:		
Variable-rate borrowings	**50,000**	220,000
Fixed-rate borrowings	**–**	180,000
	50,000	400,000
Carrying amount repayable *(note)*		
Within one year (shown under current liabilities)	**50,000**	400,000

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings at the end of the reporting period are as follows.

	31/12/2016	31/12/2015
Variable-rate borrowings	**4.35%**	4.60%
Fixed-rate borrowings	**–**	4.60%

Note:

The amount due are based on scheduled dates set out in the loan agreements.

32. DEFERRED REVENUE

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Arising from government grant	**3,000**	3,000
Current liabilities	**300**	300
Non-current liabilities	**2,250**	2,550
	2,550	2,850

During the year ended 31 December 2014, Hengshi Fiberglass received a government grant amounted to RMB3,000,000, which was a subsidy related to the purchase of manufacturing equipment, which shall be charged to profit or loss over the useful lives of these assets when they become ready to use. RMB300,000 (2015: RMB150,000) had been credited to profit or loss as government grant for the year ended 31 December 2016.

33. SHARE CAPITAL

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 31 December 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)*	1,950,000,000	1,950,000
As at 31 December 2016 and 2015	2,000,000,000	2,000,000

33. SHARE CAPITAL *(Continued)*

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

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 each (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.

34. CONTINGENT LIABILITIES

On 15 May 2015, China Jushi, supplier of the Group, and Hengshi Fiberglass jointly initiated legal proceedings in Spain against an overseas fiberglass manufacturer (the "defendant") to seek an order that (i) the defendant's patent on one particular type of fiberglass is invalid in Spain, and (ii) even if such patent is valid the particular type of fiberglass manufactured by China Jushi does not infringe such patent of the defendant.

The management of the Group, with assistance of the legal advisor, assessed that there would not have material contingent liabilities as at 31 December 2016 and 2015.

35. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2016 was RMB4,781,000 (2015: RMB1,577,000).

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Within one year	**1,180**	785
In the second to fifth years inclusive	**1,420**	1,910
	2,600	2,695

Operating lease payments represent rental payable by the Group for certain factory, office premises and buildings. Leases are negotiated and rentals are fixed for terms of one to five years.

36. CAPITAL COMMITMENTS

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

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment, contracted for but not provided for in the consolidated financial statement	**41,403**	75,000

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that the entities in the group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of borrowings, net of cash and cash equivalents, and equity attributable to owners (comprising share capital, reserves and retained profits).

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividend, new share issues as well as the issue of new debts or the redemption of existing debts.

Categories of financial instruments

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Financial Assets		
Loans and receivables (including cash and cash equivalents)	**833,099**	992,882
Financial Assets		
Financial liabilities at FVTPL	**–**	1,000
Other financial liabilities	**360,130**	608,265
	360,130	609,265

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits, bank balances and cash, trade and other payables, bills payables, amounts due to related parties, amount due to a shareholder, financial liabilities at FVTPL and bank borrowings. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk

(i) Currency risk

The Group has foreign currency sales and purchases, which exposes it to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy but use foreign currency forward contracts to hedge against the risk when it is foreseen to be significant. Details of the foreign currency forward contracts entered into by the Group and still outstanding at the end of last year were set out in note 29. There was no foreign currency forward contracts outstanding as at 31 December 2016. The management manages the foreign currency risk by closely monitoring the movement of the foreign exchange rate.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the years are as follows:

	Assets		Liabilities	
	31/12/2016 RMB'000	31/12/2015 RMB'000	**31/12/2016 RMB'000**	31/12/2015 RMB'000
Hong Kong dollars ("HKD")	**931**	256,579	**252**	795
USD	**240,188**	154,717	**11,374**	20,673
European dollars ("EUR")	**42,012**	5,525	**249**	648
Japanese Yen ("JPY")	**4**	3	**–**	–
	283,135	416,824	**11,875**	22,116

Sensitivity analysis

The Group carries out most of the transactions denominated in HKD, USD and EUR and the Group is mainly exposed to the foreign exchange risk arising from these currencies.

The sensitivity analysis below details the Group's sensitivity to a 5% (2015: 5%) increase and decrease in HKD, USD and EUR against the functional currencies, 5% (2015: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 5% (2015: 5%) change in foreign currency rates, except for the impact of the forward foreign currency contracts. A positive (negative) number below indicates an increase (decrease) in profit or equity where the relevant foreign currencies strengthen 5% (2015: 5%) against functional currencies. For a 5% (2015: 5%) weakening of the relevant foreign currency against functional currencies, there would be a comparable impact on the profit or equity, and the balances below would be negative.

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis (Continued)

	Year ended 31/12/2016	Year ended 31/12/2015
	RMB'000	*RMB'000*
HKD	**34**	10,871
USD	**9,952**	5,697
EUR	**1,670**	207
	11,656	16,775

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 26 and 31 for details of these balances) due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed-rate bank balances, pledged bank deposits and bank borrowings (see notes 26 and 31 for details of these balances)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the year. The management does not expect significant change to the deposit interest rate on variable-rate bank balances.

The analysis is prepared assuming the variable-rate bank borrowings outstanding at the end of the year were outstanding for the whole year. A 50 basis point (2015: 50 basis point) increase or decrease is used for variable-rate bank borrowings and represents management's assessment of the reasonably possible change in interest rates.

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk *(Continued)*

Sensitivity analysis (Continued)

If interest rates had been 50 basis points higher and all other variables were held constant for both years, the impact to profit or loss is as follows:

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Decrease in profit for the year	**213**	935

If interest rates had been 50 basis points lower and all other variables were held constant for the both years, there would have been equal but opposite impact to profit or loss.

Credit risk

At the end of the year, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligation is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Group's credit risk primarily relates to the its trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits and bank balances. The credit risk on pledged bank deposits and bank balances and cash is limited because the majority of the counterparties are banks with high credit ratings or are state owned.

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

The Group has concentration of credit risk in relation to its trade receivables as follows:

	31/12/2016	31/12/2015
Amount due from the largest debtor as a percentage to trade receivables	26%	21%
Total amounts due from the five largest debtors as a percentage to trade receivables	62%	55%

The Group keeps exploring new customers to diversify and strengthen its customer base to reduce the concentration of credit risk. In order to minimise the credit risk, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures over the customers to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each significant debt at the end of the year to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that its credit risk is significantly reduced.

The Group has concentration of credit risk in relation to its amounts due from related parties, of which a significant portion is due from a few counterparties. The management considers that the credit risk on amounts due from related parties is limited because they continuously monitor the credit quality and financial conditions of these related parties.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the management, which has established an appropriate liquidity management framework for the management of the Group's short-term, medium-term and long-term funding and liquidity management requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The tables include both interest and principal cash flows. To the extent that interest rates are floating, the undiscounted amount is derived from interest rate at the end of the year.

Liquidity tables

Non-derivative financing liabilities

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2016							
Trade and other payables	–	167	27,482	–	–	27,649	27,649
Bills payables	–	82,757	83,415	104,841	–	271,013	271,013
Amounts due to related parties	–	86	11,375	–	–	11,461	11,461
Amount due to a shareholder	–	7	–	–	–	7	7
Bank borrowings – variable rate*	4.35	181	363	50,888	–	51,432	50,000
		83,198	122,635	155,729	–	361,562	360,130
As at 31 December 2015							
Trade and other payables	–	677	23,124	–	–	23,801	23,801
Bills payables	–	71,302	46,914	50,293	–	168,509	168,509
Amounts due to related parties	–	15,955	–	–	–	15,955	15,955
Bank borrowings – variable rate*	4.60	843	1,687	224,619	–	227,149	220,000
Bank borrowings – fixed rate*	4.60	690	1,380	183,546	–	185,616	180,000
		89,467	73,105	458,458	–	621,030	608,265

* For the Group's interest bearing borrowings, the weighted average interest rate at the end of the reporting period is used for undiscounted cash flows analysis.

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The amounts included above for non-derivative financial liabilities bearing variable interest rate is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the year.

The Group's available banking financing facilities amounts to RMB452,028,000 (31 December 2015: RMB108,671,000) were unused as at 31 December 2016. The Group expects to meet its other obligations from operating cash flows and of maturing financial assets.

The following table detailed the Group's liquidity analysis for its derivative financial instruments as at 31 December 2015. The table had been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable was not fixed, the amount disclosed had been determined by reference to the projected interest rates as illustrated by the yield curves at the end of last year. There was no derivative financial instruments as at 31 December 2016.

Derivative financial liabilities

	Less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Total carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2015					
Gross settled:					
Foreign currency forward contracts					
– inflow	19,400	41,500	200,400	261,300	258,100
– outflow	(19,500)	(41,700)	(201,200)	(262,400)	(259,100)
	(100)	(200)	(800)	(1,100)	(1,000)

37. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Fair value measurements

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

The Group's financial instruments are measured at fair value for financial reporting purposes.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The Group's financial assets and financial liabilities are measured at fair value at the end of the 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).

Financial liabilities	Classified as	Fair value *RMB'000*	Fair value hierarchy	Basis of fair value measurement/ valuation technique(s) and key input(s)
As at 31 December 2016				
Not applicable	Not applicable	Nil	Not applicable	Not applicable
As at 31 December 2015				
Foreign currency 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

38. PLEDGE OF ASSETS

Save as elsewhere disclosed in the consolidated financial statements, the following assets have been pledged to various banks for securing the borrowings and obtaining financing facilities for the Group at the end of the years.

	31/12/2016	31/12/2015
	RMB'000	*RMB'000*
Property, plant and equipment	**124,647**	81,433
Prepaid lease payments	**16,557**	16,758
	141,204	98,191

39. RETIREMENT BENEFITS PLANS

Hengshi Fiberglass and Tongxiang Hengxian Trading Company Limited 桐鄉恒纖進出口有限公司 (Tongxiang Hengxian Trading Company Limited) ("Tongxiang Hengxian") participated the state-managed retirement benefits scheme operated by the PRC government authority. Hengshi Fiberglass and Tongxiang Hengxian are required to contribute specified rate of the employees' salaries to the retirement benefits scheme to fund the benefits. The only obligation of Hengshi Fiberglass and Tongxiang Hengxian with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Hengshi Egypt is a member of the state-managed retirement benefits scheme operated by the Egypt government authority. Hengshi Egypt is required to contribute specified rate of the employees' salaries to the retirement benefits scheme to fund the benefits. The only obligation of Hengshi Egypt with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme during the years ended 2016 are RMB5,327,000 (2015: RMB4,269,000).

40. TRANSFER OF FINANCIAL ASSETS

During the year ended 31 December 2016, the Group had endorsed bills receivables to the suppliers to settle the Group's payable balances to the counterparties. As at 31 December 2016, total bills endorsed was amounted to RMB162,862,000 (2015: RMB213,369,000), which is the Group's maximum exposure to loss, should the issuing banks fail to settle the bills on maturity.

In the opinion of the management, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank failed to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the risk of non-settlement by the issuing banks on maturity is insignificant. Therefore, the Group has derecognised these bills receivables and the corresponding payables to the counterparties in their entirety in both years.

41. RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship	Nature of transactions	Year ended 31/12/2016 RMB'000	Year ended 31/12/2015 RMB'000
Sinosia Technology	*note 25(i)*	Sales of finished goods	**12,264**	9,220
		Prepaid admin expense paid on behalf of the Group	**83**	–
Zhenshi Spain	*note 25(i)*	Sales return of finished goods	**–**	(109)
Huamei New Materials	*note 25(i)*	Purchase of raw materials	**–**	75
		Purchase of property plant and equipment	**8**	1,163
Yushi International	*note 25(i)*	Services charges incurred	**54,050**	42,585
		Rental income earned	**–**	215
		Prepayment of value added tax in respect of overseas purchase of machineries	**2,635**	18,406
Zhenshi Group Jucheng Real Estate Development Co., Ltd.# (振石集團巨成置業有限公司)	*note 25(i)*	Purchase of property plant and equipment	**–**	655
		Services charges incurred	**471**	–
Inspirock Hotel	*note 25(i)*	Services charges incurred	**1,488**	2,089
		Scrap sales earned	**–**	2
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司)	*note 25(i)*	Services charges incurred	**908**	435
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 25(i)*	Services charges incurred	**421**	102

41. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related parties	Relationship	Nature of transactions	Year ended 31/12/2016 RMB'000	Year ended 31/12/2015 RMB'000
Tongxiang Huarui	*note 25(i)*	Purchase of raw materials	**23**	35
		Purchase of property, plant and equipment	**1,581**	22
Jushi Group	*note 25(ii)*	Purchase of raw materials	**14,714**	55,554
		Purchase of property, plant and equipment	**15**	–
		Scrap sales earned	**–**	324
		Service income earned	**22**	–
		Rental expense incurred	**–**	9
P-D Jushi	*note 25(ii)*	Rental expense incurred	**19**	–
		Purchase of raw materials	**4,332**	5,531
Jushi France	*note 25(ii)*	Sales of finished goods	**793**	2,037
Temax Italia	*note 25(ii)*	Sales of finished goods	**820**	363
Jushi Group Chengdu Co., Ltd.# (巨石集團成都有限公司)	*note 25(ii)*	Purchase of raw materials	**–**	101
Jushi Jiujiang	*note 25(ii)*	Purchase of raw materials	**–**	1,827
Jushi Singapore	*note 25(ii)*	Sales of finished goods	**946**	933
Jushi India	*note 25(ii)*	Sales of finished goods	**860**	1,803
Jushi Canada	*note 25(ii)*	Sales of finished goods	**625**	537
Jushi Japan	*note 25(ii)*	Sales of finished goods	**–**	234
Jushi USA	*note 25(ii)*	Purchase of raw materials	**–**	211
		Services charges incurred	**–**	1,583
		Rental expense incurred	**252**	40
Jushi Spain	*note 25(ii)*	Sales of finished goods	**2,504**	884

41. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related parties	Relationship	Nature of transactions	Year ended 31/12/2016 RMB'000	31/12/2015 RMB'000
Jushi Group (BZ)	*note 25(ii)*	Sales of finished goods	**5,241**	–
Jushi Group (HK)	*note 25(ii)*	Sales of finished goods	**1,044**	–
Jushi Group (SA)	*note 25(ii)*	Sales of finished goods	**4**	–
Jushi Egypt	*note 25(ii)*	Purchase of raw materials	**1,837**	617
China Jushi	*note 25(ii)*	Purchase of raw materials	**588,018**	362,385
		Scrap sales earned	**768**	1,121
Zhenshi US	*note 25(ii)*	Sales of finished goods	**–**	34,108
Shanghai Tianshi	*note 25(iii)*	Services charges incurred	**14,957**	11,053
Marquis Logistics	*note 25(iii)*	Services charges incurred	**633**	522
Zhenshi Group	*note 25(iv)*	Sales of finished goods	**1,844**	5,395
		Purchase of raw materials	**–**	91,688
		Purchase of property plant and equipment	**519**	7,525
		Interest income earned	**–**	2,901
		Rental expense	**192**	–
		Deposits placed for the acquisition of property, plant and equipment	**70,000**	–
		Scrap sales earned	**125**	10
Huakai Investment	*note 25(v)*	Prepaid administrative expense paid on behalf of the Group	**7**	–

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

41. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

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

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Fee, Salaries and other benefits	**5,673**	3,038
Performance related bonus *(note)*	**263**	149
Retirement benefits schemes contribution	**124**	54
	6,060	3,241

Note:

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

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Group's material subsidiaries at the end of the years are as follows:

Name of subsidiaries	Principal activities	Place of incorporation establishment	Issued and fully paid capital/ registered capital		Proportion of ownership interest and voting power held by the Company	
			31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
Directly held						
Huaxu Investment	Investment holding	BVI	**Ordinary Share USD1**	Ordinary Share USD1	**100%**	100%
Hengshi USA Company Limited	Sales of fiberglass fabrics	USA	**Ordinary Share USD200,000**	Ordinary Share USD200,000	**100%**	100%
Hengshi Hong Kong Company Limited	Sales of fiberglass fabrics	Hong Kong	**Ordinary Share USD500,000**	Ordinary Share USD500,000	**75%**	75%
Indirectly held						
Huajin Capital	Investment holding	Hong Kong	**Ordinary Share USD100**	Ordinary Share USD100	**100%**	100%
Hengshi Fiberglass *(note b)*	Manufacture and sales of fiberglass fabrics	PRC	**Registered capital USD73,680,000**	Registered capital USD73,680,000	**100%**	100%
Tongxiang Hengxian	Import and export of products and technique	PRC	**Registered capital RMB500,000**	Not applicable	**100% *(note a)***	Not applicable
Hengshi Egypt	Manufacture and sales of fiberglass fabrics	Egypt	**Ordinary Share USD4,000,000**	Ordinary Share USD3,500,000	**91.25%**	90%

Notes:

(a) The entity was newly incorporated during the year ended 31 December 2016.

(b) Wholly foreign-owned enterprise.

None of the subsidiaries had issued any debt securities at the end of the years.

43. FINANCIAL INFORMATION OF THE COMPANY

The Company had the following assets and liabilities as at 31 December 2016 and 2015:

	Year ended 31/12/2016 ***RMB'000***	Year ended 31/12/2015 *RMB'000*
Non-current asset		
Interest in subsidiaries	**1,065,772**	645,275
Current asset		
Bank and cash	**1,358**	431,610
Current liabilities		
Trade and other payables	**6,126**	17,651
Amount due to a subsidiary	**4,179**	1,299
	10,305	18,950
Net current (liabilities) assets	**(8,947)**	412,660
Total assets less current liability	**1,056,825**	1,057,935
Capital and reserve		
Share capital	**6,207**	6,207
Reserves	**1,050,618**	1,051,728
	1,056,825	1,057,935

43. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

The movement of reserves of the Company was set forth below:

	Share premium RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 23 February 2015 (date of incorporation)	–	–	–	–
Total comprehensive income for the period	–	–	29,810	29,810
Capital contribution	–	607,109	–	607,109
Issue of shares to shareholders	602,518	(607,109)	–	(4,591)
Issue of shares in connection with Global Offering	446,579	–	–	446,579
Share issue cost	(27,179)	–	–	(27,179)
At 31 December 2015	1,021,918	–	29,810	1,051,728
Total comprehensive income for the period	–	–	53,483	53,483
Payment of 2015 final dividends	–	–	(54,593)	(54,593)
At 31 December 2016	1,021,918	–	28,700	1,050,618

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2017.