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

2017
INTERIM REPORT

Contents

Corporate Profile

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

As of now, the Company owns three production bases in Zhejiang of China, Suez of Egypt and State of South Carolina of United States (under construction). Its products are exported to countries and areas including Europe, America, Middle East, and Southeast Asia, and enjoy a relatively high credibility in the domestic and overseas markets. We offer five types of fiberglass fabrics: multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. Among these products, multi-axial fabrics and uni-directional fabrics are our key products, most of which are used in the wind power generation sector, and the remaining products are mainly sold to customers in a variety of other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. In recent years, more than 80% of the revenue of the Company was generated from wind power related sector.

Corporate Information

BOARD OF DIRECTORS

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

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

Independent Non-Executive Directors
Mr. XIE Guoping (謝國平)
Mr. PAN Fei (潘飛)
Mr. CHEN Zhijie (陳志傑)

AUDIT COMMITTEE

Mr. XIE Guoping (謝國平) *(Chairman)*
Mr. WANG Yuan (王源)
Mr. PAN Fei (潘飛)

REMUNERATION COMMITTEE

Mr. XIE Guoping (謝國平) *(Chairman)*
Mr. ZHANG Jiankan (張健侃)
Mr. PAN Fei (潘飛)

NOMINATION COMMITTEE

Mr. ZHANG Yuqiang (張毓強) *(Chairman)*
Mr. XIE Guoping (謝國平)
Mr. CHEN Zhijie (陳志傑)

JOINT COMPANY SECRETARIES

Mr. YIN Hang (尹航)
Mr. LUI Chi Ho (呂志豪)

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

HEADQUARTERS

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PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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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

LEGAL ADVISER

Stevenson, Wong & Co.
39/F, Gloucester Tower,
The Landmark,
15 Queen's Road 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

Interim Results Highlights

- The revenue of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2017 (the "Review Period") was approximately RMB594.0 million (for the six months ended 30 June 2016: approximately RMB613.0 million), representing a decline of approximately 3.10% as compared with that for the same period last year.

- The gross profit of the Group for the six months ended 30 June 2017 was approximately RMB217.7 million (for the six months ended 30 June 2016: approximately RMB203.2 million), representing an increase of approximately 7.14% as compared with that for the same period last year.

- The profit for the period attributable to the owners of the Company during the six months ended 30 June 2017 was approximately RMB104.7 million (for the six months ended 30 June 2016: approximately RMB112.2 million), representing a decline of approximately 6.68% as compared with that for the same period last year.

- The basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2017 was approximately RMB0.10 (for the six months ended 30 June 2016: approximately RMB0.11).

- The board of directors (the "Directors") of the Company (the "Board") did not recommend the payment of interim dividends for the six months ended 30 June 2017 (for the six months ended 30 June 2016: nil).

Management Discussion and Analysis

BUSINESS REVIEW

The overall global wind energy market in the first half year continued to maintain a stable and healthy development: in Europe, over 6.1 GW of wind energy capacity was added in the first half of 2017 according to figures released by WindEurope; around 2.4 GW new capacity was added in the first half of 2017, and nearly 14.0 GW of wind capacity under construction according to latest figures from the American Wind Energy Association; India is having a strong year with over 3.8 GW new capacity throughout 2016, while the newly installed capacity in India was approximately 3.6 GW in 2016 according to the data from the Global Wind Energy Council. Under the influence of the adjustment of the national policies, the progressive decrease in wind power subsidies and the "Rush to Install Wave" which overdraw some future market demands, the domestic wind power industry showed an overall correction in the first half of this year. According to statistics from the National Energy Administration of the People's Republic of China, the newly installed capacity in the PRC was 6.01 GW in the first half of the year, representing a year-on-year decline of approximately 22.35% (in the first half of 2016: 7.74 GW).

Utilizing its overseas market advantages to continue its export expansion, the overseas sales revenue of the Group maintained a steady growth and increased approximately 10.12%. In order to be cautious in dealing with the current slowdown in the domestic wind power market, the Group adjusted production and sales strategies in a timely manner to avoid market risk and credit risk, and actively reduced the credit limits for certain customers with slow payment, thus resulting in a year-on-year decline in domestic sales volume of approximately 22.28% in the first half of the year. However, by leveraging on the forward-looking strategy layout and continuously improved research and development ("R&D") capabilities, the Group proactively consolidated existing markets and explored new markets, strengthened the operating capacities and effective refinement management, which made various operating activities and project construction maintaining a healthy development.

During the Review Period, the revenue of the Group achieved was RMB594.0 million, representing a year-on-year decrease of approximately 3.10%, among which, approximately RMB482.7 million was the sales revenue of related products in the wind turbine blades industry, representing a year-on-year decrease of 11.10%. The gross profit achieved was approximately RMB217.7 million, representing a year-on-year increase of approximately 7.14%. The net profit was approximately RMB105.1 million, representing a year-on-year decrease of approximately 5.91%. The net profit attributable to the owners of the Company was approximately RMB104.7 million, representing a year-on-year decrease of approximately 6.68%. The gap between such two interim net profit was mainly attributable to the government grant of approximately RMB10.6 million received in the same period last year, while the government grant received during the Review Period was only RMB0.8 million.

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Multi-axial fabrics	**353,530**	409,442
Uni-direction fabrics	**189,836**	164,614
Woven roving combo mat	**21,213**	18,832
Stitched mat	**2,908**	2,915
E/PP compofil fabrics	**26,517**	17,228
Total	**594,004**	613,031

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Products specified in contracts for wind turbine blade sector	**482,740**	543,044
Other	**111,264**	69,987
Total	**594,004**	613,031

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Overseas markets		
Europe	**188,194**	189,459
North America	**152,167**	129,741
Asia (note a)	**30,553**	26,535
Latin America	**27,703**	16,635
Australia	**344**	183
Africa	**342**	–
	399,303	362,553
PRC market (note b)	**194,701**	250,478
Total	**594,004**	613,031

Notes:

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

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

REVIEWS ON PRINCIPAL ACTIVITIES

1. Business performance

During the Review Period, the revenue of the Group was RMB594.0 million, representing a year-on-year decrease of approximately 3.10%, among which, our revenue generated from sales to wind turbine blade sector amounted to approximately RMB482.7 million, representing a year-on-year decrease of approximately 11.10%. The gross profit was approximately RMB217.7 million, representing a year-on-year increase of approximately 7.14%. The net profit was approximately 105.1 million, representing a year-on-year decrease of approximately 5.91%.

2. Sales and marketing

Maintenance and development of customers

During the Review Period, adhering to the marketing thoughts of "Consolidating existing customers and exploring new clients", the Company, on one hand, further strengthened the cooperation relationship and broadened the scope of cooperation by promoting the certification of new products with existing customers. In the first half of the year, we had more visits to and communications with major long-term customers and carried out in-depth communication as to new product promotion and verification as well as commercial contracts for 2018 and other long-term contracts. On the other hand, we continued to strengthen the development of new customers and sub-new customers (customers developed in the recent two years) and verification of products to prepare capabilities for subsequent development. In the first half of the year, we particularly promoted the development and certification of product of the global top ten new wind power customers in the European region and Asian region, and conducted in-depth communication with several leading domestic wind turbine manufacturers as well as wind turbine blade manufacturers, aiming to promote the application of our new products to big turbines, which laid solid market foundation for the subsequent growth of the Group.

Adjustment to market structure

During the Review Period, under the influence of the adjustment of the national policies and the consumption of overcapacity by blade manufacturers, there occurred some corrections in the domestic market demand, and also some increase in risk of collecting funds from customers. Facing this situation, in line with the principle of "strict control of capital risk for maintaining stable and healthy development", the Company accelerates the recovery of payment for goods, and takes this opportunity to optimize the market structure by actively controlling credit limits of certain domestic customers with slow payment; and at the same time, to fully leverage its advantages in overseas markets to actively exploring overseas markets, the Company strengthens the exploration of new customers, and enhances the cooperation with customers with great potential and good reputation which further increased its overseas market share and brought an overseas sales revenue in the first half year of approximately RMB399.3 million, representing a year-on-year increase of approximately 10.12%.

Adjustment to product structure

With over ten years of experience in R&D and production, the Company was quite aware of customers' personalized and differential demand of all multi-size fiberglass fabrics, and adjusted the product structure in a timely manner: (i) continued to advance the conversion of production lines of high modulus products such as E7 (a new high modulus glass fiber) and the testing, certification and promotion of the new high modulus product E8 (the newest high modulus glass fiber). During the Review Period, the market share of high modulus products has been further consolidated; (ii) provided the cutting processing services according to different requirements of customers, so as to help them to reduce processing procedures and production costs, which help us further strengthening the competitive advantages of differentiation and improving customer satisfaction and loyalty; and (iii) proactively expanded the application of fiberglass fabrics in non-wind areas and enhanced the promotion in relevant markets, conducted preliminary market and customer research on carbon fiber and R&D on new products to further enrich the product structure and broaden the profit growth source of the Group.

3. Production management

During the Review Period, the Group has fully implemented the guiding ideology of "Streamlined management with reducing cost and increasing efficiency" to every sector of its operating activities by vigorously promoting production management and process control plan to reduce waste and eliminate low-efficiency sectors; and continuously improving and innovating its production process to enhance the level of production automation, informatization and intellectualization, so as to reduce reliance on human beings during the production process, increase the production efficiency of products and promote the stability of product quality.

During the Review Period, Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.* (浙江恒石纖維基業有限公司) ("Hengshi Fiberglass"), a wholly-owned subsidiary of the Company, was granted "Mayor Quality Award" by the People's Government of Jiaxing in the PRC. This award, as the highest quality award set up by Jiaxing Municipality, is mainly granted to enterprises that not only their comprehensive capabilities including outstanding performance management capacity, product quality and management level, independent innovation capability and operating results hold leading position in the region, but also they made great contributions to local economic and social development.

4. Technology and R&D

Technological innovation represents an enterprise's driving force for development, and is one of the Group's core competitive advantages. During the course of development for more than 10 years in the past, the Group has continually improved its R&D capacities: On the one hand, technical R&D personnel actively stay at customers' production enterprises to get in-depth knowledge about customers' demand and capture the latest industrial trends so as to carry on diverse applied and prospective researches; on the other hand, a R&D system combined independent R&D and collaborative R&D, was established to satisfy the personalized and specialized demand from customers of various niche markets through product upgrade and technological innovation.

In recent years, with the increasing investment in R&D, R&D capacity and results of the Group have maintained a leading position in the industry. Hengshi Fiberglass is a "High and New Technology Enterprise" jointly recognised by Science and Technology Department of Zhejiang Province（浙江省科學技術廳）, Zhejiang Provincial Department of Finance（浙江省財政廳）, Zhejiang Provincial Office of the State Administration of Taxation（浙江省國家稅務局）and Zhejiang Provincial Local Taxation Bureau（浙江省地方稅務局）. Hengshi Fiberglass R&D Centre has obtained Laboratory Accreditation Certificate （國家實驗室認可資格） from China National Accreditation Service for Conformity Assessment (CNAS) and authorized accredited laboratory from DNV GL at the same time. As of 30 June 2017, the Group has obtained 6 invention patents, 56 utility model patents and 31 pending patents. In addition, as an industry-leading enterprise, the Group has been invited to participate in drafting and formulating national standards on fiberglass fabrics for several times.

During the Review Period, Hengshi Fiberglass Industrial Design Centre（恒石纖維工業設計中心） (the "Centre") was certified by Zhejiang Province Economic and Information Commission in the PRC as the "Provincial Industrial Design Centre". Industrial design is the design of industrial products, which acts as the most productive sector in the industry chain. Since its establishment in 2006, the Centre has focused on enhancing the Company's industrial design level and improving our independent innovation capacity, and promoting the optimization and upgrade of our products. In recent years, the Centre has undertaken 20 industrial design projects and completed over 40 industrialized projects, and the production value transferred from its design achievements amounted to RMB122.0 million.

5. Overseas subsidiaries management and project construction

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 orderly promoted the construction of its overseas production base to facilitate the Group's ability in keeping abreast with the market, customers, and providing better products and services for overseas customers.

Egypt Phase II Expansion Plan was officially put into operation in April of this year, which marks that Hengshi Egypt Fiberglass Fabrics S.A.E ("Hengshi Egypt") has formed the ability with an annual output of 30,000 tons of all kinds of fiberglass fabrics. As the first overseas production base officially put into production by the Group, the base benefits from the comparatively short transport distance and lower operating costs, and its operation will further reduce the costs for customers, strengthen the security of supply and enhance customers' confidence and satisfaction, thereby consolidating and enhancing the Group's market position and share. The operation of Egypt Phase II Expansion Project will also contribute greatly to the improvement of the Group's profitability.

Since Hengshi USA Wind Power Materials Corporation has been formally established on 1 January 2017, various works relating to the U.S. expansion plan like the purchase of equipment and auxiliary equipment and plant decoration are proceeding in good order, which is expected to commence production in the first quarter of 2018. The implementation of the U.S. expansion plan is an important and integral part of the Group's internationalization strategic layout. On the one hand, it will meet the needs of North American customers and strengthen the security of supply; on the other hand, it will enhance the influence and awareness of the Group's brand in overseas market, thereby consolidating and enhancing the overseas market share.

FINANCIAL REVIEW

Revenue

During the Review Period, the revenue of the Group amounted to approximately RMB594.0 million, representing a year-on-year decrease of approximately RMB19.0 million or about 3.10%. The decrease in revenue was primarily attributable to: (i) the overall correction occurred in the domestic wind power market in the first half of the year resulted in a decrease of approximately 22.35% in the newly installed domestic wind power capacity, leading to an unavoidable decrease in the sales volume of the Group in the domestic market; and (ii) the Group has timely adjusted its production and sales strategies by actively reducing some customers' credit limits to prevent market risk and control credit risk, resulting in the reduction of sales revenue from domestic market. However, with its impeccable advantages, stable product quality and good customer service, sales revenue from overseas market still maintain a stable growth.

Cost of sales

During the Review Period, our cost of sales amounted to approximately RMB376.3 million, representing a year-on-year decrease of approximately RMB33.6 million or about 8.20%. The decrease in cost of sales was mainly attributable to the decrease of the sales during the Review Period, which caused the corresponding decrease in costs of raw materials, costs of package materials, etc.

Gross profit

During the Review Period, gross profit of the Group amounted to approximately RMB217.7 million, representing a year-on-year increase of approximately RMB14.6 million or approximately 7.14%. The growth in our gross profit was mainly attributable to: (i) the decrease in the cost of main raw materials; and (ii) further control on its cost and effective reduction of the various costs by the Group.

Other income

During the Review Period, other income of the Group amounted to approximately RMB5.7 million, representing a year-on-year decrease of approximately RMB11.0 million or approximately 66.07%. It was owing to the fact that the Group obtained a government grant of approximately RMB10.6 million during the same period last year and the government grant was only approximately RMB0.8 million during the Review Period.

Other gains and losses

During the Review Period, other losses of the Group amounted to approximately RMB6.9 million, while the Group recorded other gains of approximately RMB1.1 million for the same period last year, representing a year-on-year decrease of approximately RMB8.0 million or approximately 727.27% in other gains. The increase in other losses was mainly due to the net effect of: (i) influenced by RMB appreciation, net foreign exchange loss was approximately RMB6.0 million, however, the Group recorded net foreign exchange gain approximately RMB6.4 million during the same period last year; and (ii) the decrease in other gains.

Selling and distribution expenses

During the Review Period, selling and distribution expenses of the Group amounted to approximately RMB50.3 million, representing an increase of approximately RMB13.8 million or approximately 37.8% as compared with that for the same period last year. The selling and distribution expenses accounted for 8.47% of the sales income percentage (30 June 2016: 5.95%). It was mainly attributable to (i) the increase in exhibition fees compared to the same period last year; and (ii) the change of sales method to certain customers, leading to the increase in sea freight of some shipping lines during the Review Period.

Administrative expenses

During the Review Period, total administrative expenses of the Group amounted to approximately RMB20.9 million, representing a decrease of approximately RMB2.0 million or approximately 8.73% as compared with that for the same period last year. The decrease in administrative expenses was mainly attributable to further enhancement of internal control by the Company during the Review Period.

Research expenditure

During the Review Period, total research expenditure of the Group amounted to approximately RMB16.3 million, representing a decrease of approximately RMB2.3 million or approximately 12.37% as compared with that last year, accounting for approximately 2.74% of our revenue (30 June 2016: 3.03%). The main reason for the decrease in research expenditure is that in 2015 and 2016, the expenses for R&D equipments, testing and certification fees for new products and training fees for R&D personnel were more than that in the Review Period.

Finance costs

During the Review Period, finance costs of the Group amounted to approximately RMB0.1 million, representing a year-on-year decrease of approximately RMB4.1 million or approximately 97.62%, which mainly due to the decrease in average balance of bank borrowings.

Profit attributable to the owners of the Company

All in all, for the six months ended 30 June 2017, the profit during the period attributable to the owners of the Company amounted to approximately RMB104.7 million (six months ended 30 June 2016: approximately RMB112.2 million), representing a decline of approximately 6.68% as compared with that for the same period last year.

Liquidity and financial resources

As at 30 June 2017, the Group's non-current assets amounted to approximately RMB688.8 million (31 December 2016: RMB629.9 million). As at 30 June 2017, the Group's current assets amounted to approximately RMB853.2 million (31 December 2016: RMB967.5 million), including the bank balances and cash of approximately RMB260.9 million as at 30 June 2017 (31 December 2016: RMB269.4 million). As at 30 June 2017, the Group's non-current liabilities and current liabilities amounted to approximately RMB4.4 million and RMB315.1 million (31 December 2016: RMB10.1 million and RMB380.1 million), mainly including the payables incurred in the normal course of business.

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

Gearing ratio

As at 30 June 2017, the Group's gearing ratio (calculated as the total liabilities divided by total assets multiplied by 100%) was approximately 20.72% (31 December 2016: approximately 24.43%).

Foreign currency risks

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

Capital commitments and contingent liabilities

As at 30 June 2017, the aggregate capital commitments of the Group amounted to approximately RMB7.4 million (31 December 2016: RMB41.4 million), mainly attributable to the outstanding balance of the construction of plant of Hengshi Phase IV Expansion Plan and purchase of office. As at 30 June 2017, the Group did not have any material contingent liabilities.

Borrowings and pledge of assets

As at 30 June 2017, the Group did not have any bank borrowings (31 December 2016: RMB50.0 million) and pledge of asset (31 December 2016: RMB124.6 million).

Material acquisitions and disposals

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

Employees and remuneration policies

As at 30 June 2017, the Group had 1,200 employees in total (30 June 2016: 1,078 employees). The increase in the number of employees is mainly attributed to the increase in personnel hired for the full production of Hengshi Egypt during the Review Period. The remuneration policy for the employees of the Group was devised by the Board based on each employee's experience, qualification and duty. The Group also provided employee benefits, including provident fund, endowment insurance, unemployment insurance, maternity insurance and employment injury insurance, in accordance with applicable PRC laws and regulations.

OUTLOOK

1. Trend of the development of the industry

At present, the global consensus of developing green and renewable energy to cope with climate change and solve the energy problems are deepening, and it will continue to affect the energy structure in the future. According to Bloomberg New Energy Finance' latest report, and looking at its rolling five-year forecast, there was just under 60 GW installed globally in 2017, a more or less flat in 2018 and then growth again out through the end of the decade to bring total installations up to just over 800 GW by the end of 2021, with the annual market rising to 75 GW in that year.

Due to the uncertainties in the policy, the domestic wind power market is waiting for more formal news and policy guidelines on the implement of feed-in tariffs, installation goals and green certificates trading scheme in China in future years. In the second half of 2017, the operating environment of wind power industry may continue to be challenging and uncertain.

Meanwhile, with the launch of "Renewable Energy Development under "13th Five-Year Plan" and "Wind Power Development under "13th Five-Year Plan" by National Energy Administration of China and a series of guiding policies, guidelines and directions of "consumption in north, growth in south", strengthening offshore wind power construction, power grids construction and improving wind power pricing mechanism in the wind power industry are further clarified. In addition, the upgrading of wind power technology and efficiency improvements will also further reduce the installation costs and attract more countries to use wind power technology. Accordingly, the Directors are still confident with the long-term, sustainable and high-quality growth in China's domestic and global wind power market. As the leading enterprise in this industry, the Group continues to rely on its scale advantages, further get close to the customers to optimize the global distribution, further optimize operational efficiency and expand into new markets to keep its growth.

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 R&D, manufacturing, sale and services of fiberglass fabrics used in wind turbine blades, while stepping up the R&D of production of fiberglass fabrics used in blades with high mega-watts which have more potential development in values. As always, we insist on following the international development direction, further internationalise our technology, talents and capital, devote to be the leading manufacturing enterprise of wind power base materials, 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

Looking ahead to the second half of the year, the Group will continue to bring greater returns to shareholders from the following aspects:

(1) Continuing to strengthen overseas layout for higher profit contribution of overseas market

Scale effect and synergy effect brought by ongoing vertical and horizontal expansion of the global supply chain layout by the Group will materialize gradually. Next, the Group will focus on strengthening operation and management and market development of overseas production facilities. By capitalizing on the Group's sound product quality and brand effect, it is expected that overseas market will bring greater operational efficiency and profit returns to the Group.

(2) Continuing to enhance differentiation competitive advantages and develop more new products for vigorously driving sustainable growth

Innovation and development are perpetual topics in markets. On the one hand, the Group will continue to solidify and strengthen the cooperation with its new and existing quality customers by further broadening cooperation scope and communication channels, as well as by jointly developing tailor-made products that meet customers' requirements. These will further enhance the Group's differentiation competitive advantages and thus consolidate its leadership and competitiveness among global fiberglass fabrics manufacturers. On the other hand, the Group will actively carry out R&D, application and market development of new materials such as carbon fiber products so as to gather new momentum for the sustainable growth of the Group.

(3) Continuing to adopt flexible production, management and promotion plans, and strengthen operating capacity

In the future, the Group will continue to adopt flexible production, management and promotion plans, keep enhancing basic management and operating capacity, keep improving the automation, informatization, intellectualization and refinement of production and management to optimize product structure, increase operational efficiency, quality level and management level, thereby creating better economic benefits.

(4) Continuing to actively seek appropriate opportunities for mergers and acquisitions to expand at home and abroad, and expand our business to new products and new fields

In recent years, with the successive merger and reorganization of international wind power giants, the oligopoly market characteristic of wind power industry is taking shape. It is increasingly apparent that the wind power industry is becoming mature and stable, and the future potential for continued fast growth is limited. Since the fiberglass fabrics are also widely used in the field of non-wind energy new materials, it is the Company's active coping strategies at present and in the future to actively find and culture new growth points, seek appropriate opportunities for mergers and acquisitions to expand at home and abroad and expand our business to new products and new fields.

CORPORATE GOVERNANCE CODE

The Group has strived to maintain high standards of corporate governance in order to safeguard the interests of our shareholders and enhance the corporate value and accountability. The Company has adopted the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance. For the six months ended 30 June 2017, the Company has complied with the code provisions as set out in the CG Code. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the CG Code.

MODEL CODE REGARDING SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Code of Conduct (the "Model Code") regarding transactions conducted by Directors. After making specific enquires to all Directors, all of them have confirmed that they have complied with the requirements set out in the Model Code for the six months ended 30 June 2017.

INTERIM DIVIDEND

The Board did not recommend the distribution of any interim dividend for the period of six months ended 30 June 2017 (six months ended 30 June 2016: nil).

REVIEW OF AUDIT COMMITTEE

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

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The major responsibilities of the Audit Committee include reviewing and monitoring the Group's financial controls, risk management and internal control systems and procedures, reviewing the Group's financial information and reviewing the relationship with external auditors of the Company. The unaudited consolidated interim financial statements, the interim results announcement and the Interim Report of the Group for the six months ended 30 June 2017 have been reviewed by the Audit Committee and "Deloitte Touche Tohmatsu", the auditor of the Company.

CHANGES OF THE INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF THE LISTING RULES

1. Mr. Fang Xianbai retired as an independent non-executive Director, and ceased to be a member and the chairman of the Audit Committee, a member and the chairman of the remuneration committee (the "Remuneration Committee") of the Board and a member of the nomination committee (the "Nomination Committee") of the Board on 21 May 2017.

2. Mr. Xie Guoping has been appointed as an independent non-executive Director, a member and the chairman of the Audit Committee, a member and the chairman of the Remuneration Committee and a member of the Nomination Committee on 22 May 2017.

Details of the above changes are set out in the announcement of the Company dated 22 May 2017.

PURCHASE, SALES OR REDEMPTION OF COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company for the six months ended 30 June 2017.

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering received by the Company (the "Net Proceeds") 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 use of the Net Proceeds:

Use	**Proposed use of the Net Proceeds as stated in the Prospectus and the Announcement** *(RMB'million)*	**Amounts utilized of the Net Proceeds as at 30 June 2017** *(RMB'million)*	**Unutilized balance of the Net Proceeds as at 30 June 2017** *(RMB'million)*
Hengshi Phase IV Expansion Plan	70.2	61.7	8.5
Among which: Construction of production facilities	27.3	23.3	4.0
Purchase of manufacturing equipment and auxiliary equipment	42.9	38.4	4.5
U.S. expansion plan	60.0	37.8	22.2
Repayment of bank loans	170.1	170.1	0.0
Purchase of property	60.1	60.1	0.0
Working capital	40.0	40.0	0.0
Total	400.4	369.7	30.7

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

As at 30 June 2017, interests or short positions held by Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests or short positions which were taken or deemed to have under such provisions of the SFO); or (b) recorded in the register maintained pursuant to the section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

(i) Interests in the Company

Director	Nature of interests	Number of shares held[4]	Approximate percentage of shareholding[5]
Zhang Yuqiang[1]	Interest of a controlled corporation	329,602,500 (L)	32.96%
Zhang Jiankan[2]	Interest of a controlled corporation	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 of the Company held by Huachen Investment Limited under the SFO.

(2) Mr. Zhang Jiankan directly held all the issued share capital of Huakai Investment Limited, and was deemed to be interested in the 131,015,500 shares of the Company held by Huakai Investment Limited under the SFO.

(3) Mr. Tang Hsin-hua indirectly held all the issued share capital of Trade Power Investments Limited through all the direct interests held by him in Soar City Investments Limited, and was deemed to be interested in the 225,000,000 shares of the Company held by Trade Power Investments Limited under SFO.

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

(5) As at 30 June 2017, the number of issued share capital of the Company amounted to 1,000,000,000 shares.

(ii) Interests in associated corporations

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

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

As at 30 June 2017, so far as the Directors are aware, the following persons (not being a Director or chief executive of the Company) who had or were deemed to have the interests or short positions in the shares or underlying shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Nature of Interests	Number of shares[5]	Approximate percentage of shareholding[6]
Fang Yan Zau Alexander[1]	Interest of a controlled corporation	75,000,000 (L)	7.50%
Huachen Investment Limited[2]	Beneficial owner	329,602,500 (L)	32.96%
Huakai Investment Limited[3]	Beneficial owner	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 of the Company held by Joyfar Limited. Mr. Fang Yan Zau Alexander indirectly held all the issued share capital of Joyfar Limited through all direct interests held by him in Top Way Alliance Limited, and Mr. Fang Yan Zau Alexander was deemed to be interested in the 75,000,000 shares of the Company held by Joyfar Limited under the SFO.

(2) Huachen Investment Limited directly held 329,602,500 shares of the Company, while Mr. Zhang Yuqiang directly held 95.95% of the issued share capital of Huachen Investment Limited, and Mr. Zhang Yuqiang was deemed to be interested in the 329,602,500 shares of the Company held by Huachen Investment Limited under the SFO.

(3) Huakai Investment Limited directly held 131,015,500 shares of the Company, while Mr. Zhang Jiankan directly held all the issued share capital of Huakai Investment Limited, and Mr. Zhang Jiankan was deemed to be interested in the 131,015,500 shares of the Company held by Huakai Investment Limited under the SFO.

(4) Soar City Investments Limited directly held all the issued share capital of Trade Power Investments Limited, and was deemed to be interested in the 225,000,000 shares of the Company held by Trade Power Investments Limited. Mr. Tang Hsin-hua indirectly held all the issued share capital of Trade Power Investments Limited through all direct interests held by him in Soar City Investments Limited, and Mr. Tang Hsin-hua was deemed to be interested in the 225,000,000 shares held by Trade Power Investments Limited under the SFO.

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

(6) As at 30 June 2017, the number of issued share capital of the Company amounted to 1,000,000,000 shares.

As at 30 June 2017, save as disclosed above, so far as the Directors are aware, no other party (not being a Director or chief executive of the Company) who had or deemed to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO; or to be recorded in the register maintained pursuant to Section 336 of the SFO.

EVENTS AFTER THE REPORTING PERIOD

On 17 July 2017, the Board was informed by Mr. Pan Fei ("Mr. Pan") that due to his personal work arrangements, he has requested to resign as an independent non-executive Director, a member of Audit Committee and a member of Remuneration Committee of the Company. Mr. Pan's resignation will only become effective after a new independent non-executive Director has been confirmed by the Board to fill the vacancy. The Company will make further announcement in relation to such appointment as and when appropriate.

Details of the above event are set out in the announcement of the Company dated 17 July 2017.

Save as mentioned above, no significant event has taken place after 30 June 2017.

Deloitte.
德勤

TO THE MEMBERS OF CHINA HENGSHI FOUNDATION COMPANY LIMITED
中國恒石基業有限公司

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 46, which comprise the condensed consolidated statement of financial position as at 30 June 2017, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

	NOTES	For the six months ended 30 June **2017** ***RMB'000*** **(Unaudited)**	2016 *RMB'000* (Unaudited)
Revenue	4	**594,004**	613,031
Cost of sales		**(376,255)**	(409,853)
Gross profit		**217,749**	203,178
Other income	5	**5,725**	16,752
Other gains and losses	6	**(6,932)**	1,107
Selling and distribution expenses		**(50,326)**	(36,511)
Administrative expenses		**(20,884)**	(22,856)
Research expenditure		**(16,264)**	(18,615)
Other expenses		**(811)**	(196)
Finance costs		**(60)**	(4,207)
Profit before tax	7	**128,197**	138,652
Income tax expense	8	**(23,095)**	(26,938)
Profit for the period		**105,102**	111,714
Other comprehensive expense			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translating foreign operations		**(1,133)**	(1,299)
Total comprehensive income for the period		**103,969**	110,415
Profit (loss) for the period attributable to:			
Owners of the Company		**104,700**	112,200
Non-controlling interests		**402**	(486)
		105,102	111,714
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**103,551**	111,035
Non-controlling interests		**418**	(620)
		103,969	110,415
Earnings per share – basic (RMB)	10	**0.10**	0.11

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	NOTES	**30/06/2017** **RMB'000** **(Unaudited)**	31/12/2016 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**538,348**	510,597
Prepaid lease payments	12	**29,645**	30,033
Deferred tax assets		**12,439**	10,538
Deposits paid for acquisition of property, plant and equipment	13	**108,361**	78,695
		688,793	629,863
CURRENT ASSETS			
Inventories		**141,573**	126,132
Prepaid lease payments		**776**	776
Trade and other receivables	14	**394,076**	386,687
Bills receivables	14	**3,570**	36,500
Amounts due from related parties	14	**13,191**	14,401
Pledged bank deposits		**39,105**	133,603
Bank balances and cash		**260,919**	269,397
		853,210	967,496
CURRENT LIABILITIES			
Trade and other payables	15	**48,055**	34,779
Bills payables	15	**132,950**	271,013
Amounts due to related parties	15	**123,937**	11,461
Amount due to a shareholder		**7**	7
Tax payable		**9,848**	12,579
Bank borrowings	16	**–**	50,000
Deferred revenue		**300**	300
		315,097	380,139
NET CURRENT ASSETS		**538,113**	587,357
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,226,906**	1,217,220

Condensed Consolidated Statement of Financial Position *(Continued)*

At 30 June 2017

	NOTES	**30/06/2017** **RMB'000** **(Unaudited)**	31/12/2016 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,253**	7,886
Deferred revenue		**2,100**	2,250
		4,353	10,136
NET ASSETS		**1,222,553**	1,207,084
CAPITAL AND RESERVES			
Share capital	17	**6,207**	6,207
Reserves		**1,216,079**	1,202,665
Equity attributable to owners of the Company		**1,222,286**	1,208,872
Non-controlling interests		**267**	(1,788)
TOTAL EQUITY		**1,222,553**	1,207,084

The condensed consolidated financial statements on pages 23 to 46 were approved and authorised for issue by the board of directors of the Company on 25 August 2017 and are signed on its behalf by:

Mr. ZHANG Yuqiang
Director

Mr. ZHANG Jiankan
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Share Capital *RMB'000*	Share Premium *RMB'000*	Statutory Reserve Surplus *RMB'000* *(note a)*	Other Reserve *RMB'000* *(note b)*	Retained Profits *RMB'000*	Proposed Final Dividend *RMB'000*	Translation Reserve *RMB'000*	Sub-total *RMB'000*	Non-controlling Interests *RMB'000*	Total *RMB'000*
At 1 January 2016 (Audited)	6,207	1,021,918	51,557	(104,532)	20,897	54,593	(548)	1,050,092	1,546	1,051,638
Profit (loss) for the period	–	–	–	–	112,200	–	–	112,200	(486)	111,714
Other comprehensive expense for the period	–	–	–	–	–	–	(1,165)	(1,165)	(134)	(1,299)
Total comprehensive income (expense) for the period	–	–	–	–	112,200	–	(1,165)	111,035	(620)	110,415
Payment of final 2015 dividends declared	–	–	–	–	–	(54,593)	–	(54,593)	–	(54,593)
At 30 June 2016 (Unaudited)	6,207	1,021,918	51,557	(104,532)	133,097	–	(1,713)	1,106,534	926	1,107,460
At 1 January 2017 (Audited)	**6,207**	**1,021,918**	**77,893**	**(105,137)**	**163,848**	**88,500**	**(44,357)**	**1,208,872**	**(1,788)**	**1,207,084**
Profit for the period	**–**	**–**	**–**	**–**	**104,700**	**–**	**–**	**104,700**	**402**	**105,102**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(1,149)**	**(1,149)**	**16**	**(1,133)**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**104,700**	**–**	**(1,149)**	**103,551**	**418**	**103,969**
Payment of final 2016 dividends declared	**–**	**–**	**–**	**–**	**–**	**(88,500)**	**–**	**(88,500)**	**–**	**(88,500)**
Deemed acquisition of additional interest in a subsidiary	**–**	**–**	**–**	**(1,637)**	**–**	**–**	**–**	**(1,637)**	**1,637**	**–**
At 30 June 2017 (Unaudited)	**6,207**	**1,021,918**	**77,893**	**(106,774)**	**268,548**	**–**	**(45,506)**	**1,222,286**	**267**	**1,222,553**

Notes:

a. As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), PRC subsidiary is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiary while the amounts and allocation basis are decided by the board of directors annually, until the reserve balance reaches 50% of the registered capital. The statutory surplus reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of the company, provided that such fund is maintained at a minimum of 25% of the registered capital.

b. The other reserve represented the net effect of the following:

   i. The paid-in capital of 浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) ("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 amounting RMB(104,532,000) in April 2015 as a part of group reorganisation; and

   ii. 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% with an impact amounting RMB(605,000), while that of Huamei New Materials and Zhejiang Huajun each had been decreased from 5% to 4.375%, respectively; and

   iii On 5 January 2017, Hengshi Fiberglass made a capital contribution amounting to USD2,500,000 (equivalent to RMB17,375,000) to Hengshi Egypt in cash, while the remaining two shareholders of Hengshi Egypt, Huamei New Materials and Zhejiang Huajun, waived their pre-emptive rights to make capital contributions to Hengshi Egypt. Consequently, the Group's ownership in Hengshi Egypt had been increased from 91.25% to 94.62%, while that of Huamei New Materials and Zhejiang Huajun each had been decreased from 4.375% to 2.69%, respectively. The deemed acquisition of additional interest in subsidiary result in debt of RMB1,637,000 to the reserve of the Group.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

		For the six months ended 30 June	
	NOTES	**2017**	2016
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
NET CASH GENERATED IN OPERATING ACTIVITIES		**115,949**	144,862
Cash flows from investing activities			
Purchase of property, plant and equipment		**(46,035)**	(11,975)
Deposits paid for acquisition of property, plant and equipment		**(35,801)**	(70,024)
Cash received in respect of the Net Gain under the compensation agreement (as defined in note 12)		**–**	1,045
Interest received from bank deposits		**2,242**	3,466
Placement of pledged bank deposits		**(640,898)**	(449,145)
Withdrawal of pledged bank deposits		**735,396**	310,271
NET CASH FROM (USED) IN INVESTING ACTIVITIES		**14,904**	(216,362)
Cash flow from financing activities			
New bank borrowings raised		**–**	180,000
Repayment of bank borrowings		**(50,000)**	(420,000)
Interest paid		**(60)**	(4,718)
Dividend paid		**(88,500)**	(54,593)
Advance from a shareholder		**–**	7
Advance from a related party		**695**	–
Share issue expenses paid		**–**	(977)
NET CASH USED IN FINANCING ACTIVITIES		**(137,865)**	(300,281)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(7,012)**	(371,781)
Cash and cash equivalents at the beginning of the period		**269,397**	502,428
Effect of foreign exchange rate changes		**(1,466)**	1,029
Cash and cash equivalents at the end of the period, represented by bank balances and cash		**260,919**	131,676

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 companies are Huachen Investment Limited ("Huachen Investment"), which is controlled by Mr. Zhang Yuqiang, and Huakai Investment Limited ("Huakai Investment"), which is controlled by Mr. Zhang Jiankan, the son of Mr. Zhang Yuqiang, acting in concert (collectively known as the "Controlling Shareholders"). Huachen Investment and Huakai Investment are companies incorporated in British Virgin Islands ("BVI").

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle

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

4. REVENUE AND SEGMENT INFORMATION

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

The accounting policies of the operating segment are the same as the Group's accounting policies.

Segment assets and liabilities

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

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

	30/06/2017 ***RMB'000*** **(Unaudited)**	31/12/2016 *RMB'000* (Audited)
The PRC	**581,698**	599,558
Other	**94,656**	19,767
Total	**676,354**	619,325

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Entity-wide disclosures

Revenue from major products

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Multi-axial fabrics	**353,530**	409,442
Uni-direction fabrics	**189,836**	164,614
Woven roving combo mat	**21,213**	18,832
Stitched mat	**2,908**	2,915
E/PP compofil fabrics	**26,517**	17,228
Total	**594,004**	613,031

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Products specified in contracts for wind turbine blade sector	**482,740**	543,044
Other	**111,264**	69,987
Total	**594,004**	613,031

4. REVENUE AND SEGMENT INFORMATION *(Continued)*

Entity-wide disclosures *(Continued)*

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers determined based on the location of its immediate customers during the period.

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Overseas markets		
Europe	**188,194**	189,459
North America	**152,167**	129,741
Asia *(note a)*	**30,553**	26,535
Latin America	**27,703**	16,635
Australia	**344**	183
Africa	**342**	–
	399,303	362,553
PRC market *(note b)*	**194,701**	250,478
Total	**594,004**	613,031

Notes:

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

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

5. OTHER INCOME

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**2,242**	3,466
Government grants *(note)*	**790**	10,550
Scrap sales	**2,552**	2,316
Sundry income	**81**	420
Rental income	**60**	–
	5,725	16,752

Note:

The government grants represented the unconditional incentive of RMB640,000 (six months ended 30 June 2016: RMB10,400,000) received from the local government by Hengshi Fiberglass and the deferred revenue in relation to assets-related government grants released to other income amounted RMB150,000 (six months ended 30 June 2016: RMB150,000) during the period.

6. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss on financial instruments at FVTPL	**–**	(3,201)
Allowance for doubtful debts	**(960)**	(5,696)
Reversal of allowance for doubtful debts	**–**	2,560
Net gain received in respect of the prepaid lease payment previously transferred under the Compensation Agreement (as defined in note 12)	**–**	1,045
Loss on disposal of property, plant and equipment	**(5)**	(47)
Foreign exchange (loss) gain, net	**(5,967)**	6,446
	(6,932)	1,107

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting) the following items:

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total staff costs (including directors' remuneration, other staff cost, and other staff's retirement benefit contribution)	**48,264**	49,934
Release of prepaid lease payments	**388**	388
Depreciation of property, plant and equipment	**34,096**	32,138
Total depreciation and amortisation	**34,484**	32,526
Allowance for write-downs of inventories (recognised in cost of sales)	**1,400**	2,281
Cost of inventories recognised as expenses	**376,255**	409,853

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
Enterprise Income Tax (the "EIT") in the PRC	**20,315**	29,804
Other jurisdictions	**1,129**	–
Under (over) provision in prior years in the PRC	**1,299**	(397)
	22,743	29,407
Deferred tax charge (credit)	**352**	(2,469)
	23,095	26,938

8. INCOME TAX EXPENSE *(Continued)*

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% except for following entity which enjoyed certain tax exemption and relief.

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.

9. DIVIDENDS

The board of directors of the Company (the 'Board') does not recommend the payment of interim dividend (six months ended 30 June 2016: nil) for the current interim period.

During the current interim period, the Company has declared a final dividend of HK$0.0989 (equivalent to RMB0.0885) per share in respect of the year ended 31 December 2016 to the owners of the Company. The aggregate amount of the final dividend declared amounted to approximately HK$98,937,000 (equivalent to RMB88,500,000). The final dividend had been approved by the Company's shareholders in the annual general meeting held on 22 May 2017 and paid during the current interim period.

10. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**104,700**	112,200
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000,000**	1,000,000,000

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

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB5,000 (six months ended 30 June 2016: RMB47,000) at nil consideration (six months ended 30 June 2016: nil), resulting in a loss on disposal of RMB5,000 (six months ended 30 June 2016: RMB47,000).

In addition, during the current interim period, the Group acquired property, plant and equipment (including capital expenditure for construction in progress) of RMB62,306,000 (six months ended 30 June 2016: RMB21,097,000) in order to upgrade its manufacturing capabilities.

No impairment loss (six months ended 30 June 2016: nil) was recognised during the current interim period in respect of obsolete production machinery.

12. PREPAID LEASE PAYMENTS

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

On 17 November 2014, Hengshi Fiberglass entered into a compensation agreement ("Compensation Agreement") with the local government authority in Tongxiang City, Zhejiang Province, the PRC, pursuant to which Hengshi Fiberglass was required to transfer the prepaid lease payment in respect of a land use right together with the buildings thereon as included in property, plant and equipment to the local government authority for the purpose of city planning, redevelopment and enhancement of economic transformation.

In accordance with the Compensation Agreement, the local government authority agreed to compensate RMB12,565,000 and RMB11,963,000 in form of cash to Hengshi Fiberglass for the expropriation of prepaid lease payment and the buildings, plus the cash compensation of RMB110,000 for the relocation of Hengshi Fiberglass' machinery. In addition, pursuant to the Compensation Agreement, the land use right to be returned to the local government authority would be subsequently put in auction ("Auction"), and the local government authority agreed to share 50% net gain, if any, representing the auction price less all compensation and necessary costs paid by the government authority, corresponding to the land use right from the Auction to Hengshi Fiberglass ("Net Gain"). However, if the buyer in this Auction eventually was Zhenshi Holding Group Co., Ltd. ("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 six months period ended 30 June 2016, 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.

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

As at 30 June 2017, the deposits paid for acquisition of property, plant and equipment include prepayment to Zhenshi Group amounted to RMB70,000,000 (31 December 2016: RMB70,000,000), a related party of the group for the acquisition of an office property, which is expected to be transferred to the Group when completion in 2018.

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

(A) Trade and other receivables

	30/06/2017	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	399,115	393,075
Less: allowance for doubtful debts	(22,240)	(21,280)
	376,875	371,795
Prepayments	2,185	3,369
Other taxes recoverable	4,764	2,818
Deposits	727	1,302
Other receivables *(note)*	9,525	7,403
	17,201	14,892
Trade and other receivables	394,076	386,687

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.

	30/06/2017	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	254,022	235,349
91 to 180 days	49,743	76,440
181 days to 1 year	53,455	60,006
1 to 2 years	19,655	–
	376,875	371,795

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.

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

(B) Bills receivables

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

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Within 90 days	3,570	19,000
91 to 180 days	–	12,500
Over 181 days	–	5,000
	3,570	36,500

(C) Amounts due from related parties

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Trade related	13,191	14,401

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 in trade nature, presented based on the invoice dates, at the end of periods.

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Within 90 days	5,109	4,638
91 to 180 days	231	478
181 days to 1 year	196	8,617
1 to 2 years	6,999	668
Over 2 years	656	–
	13,191	14,401

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

(A) Trade and other payables

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Trade payable	15,253	9,105
Deposits received from customers	1,466	1,230
Interest payable	–	60
Other taxes payable	1,507	350
Payables for purchase of property, plant and equipment	14,616	6,568
Retention payable	308	578
Accrued listing expense	5,358	5,550
Transportation cost payable	1,737	5,843
Payroll payable	743	303
Other payables	7,067	5,192
Trade and other payables	48,055	34,779

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

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Within 90 days	12,363	8,629
91 to 180 days	2,546	167
181 days to 1 year	261	245
1 to 2 years	63	45
Over 2 years	20	19
	15,253	9,105

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

(B) Bills payables

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

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Within 30 days	36,312	82,757
31 to 60 days	42,397	48,844
61 to 90 days	26,696	34,571
91 to 180 days	27,545	104,841
	132,950	271,013

(C) Amounts due to related parties

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Trade related	123,156	11,375
Non-trade related	781	86
	123,937	11,461

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

	30/06/2017 *RMB'000* (Unaudited)	31/12/2016 *RMB'000* (Audited)
Within 90 days	120,789	11,375
91 to 180 days	1,627	–
181 days to 1 year	740	–
	123,156	11,375

16. BANK BORROWINGS

During the current interim period, the Group did not raise any (six months ended 30 June 2016: RMB180,000,000) new bank loans and repaid RMB50,000,000 (six months ended 30 June 2016: RMB420,000,000).

As of 31 December 2016, RMB50,000,000 of the bank borrowings carry interest at the variable market rates, with effective interest rate of 4.35% per annum.

17. SHARE CAPITAL

Details of share capital of the Company at the end of the periods were as follows:

	Number of shares	**Amount**
		USD
Authorised (at par value of US$0.001 each)		
As at 30 June 2017 and 31 December 2016	2,000,000,000	2,000,000

	Number of shares	**Amount**	**RMB equivalent**
		USD	*RMB'000*
Issued and fully paid (at par value of US$0.001each)			
As at 30 June 2017 and 31 December 2016	1,000,000,000	1,000,000	6,207

18. FAIR VALUE MEASUREMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities as at 30 June 2017 and 31 December 2016 are recorded at amortised cost in the condensed consolidated financial statements approximate their fair value.

19. CAPITAL COMMITMENTS

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

	30/06/2017	31/12/2016
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property plant and equipment and construction in progress		
– Contracted but not provided for	**7,361**	41,403

20. RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship	Nature of transactions	For the six months ended 30 June	
			2017	2016
			RMB'000	*RMB'000*
			(Unaudited)	(Unaudited)
Zhenshi Group	note (i)	Sales of finished goods	**22**	1,603
		Deposits paid for acquisition of property, plant and equipment	**–**	70,000
		Rental expense	**80**	121
Zhenshi Group (HK) Sinosia Technology	note (i)	Sales of finished goods	**179**	11,903
Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd# (振石集團浙江宇石國際物流有限公司)	note (i)	Services charges incurred	**29,368**	28,419
Zhenshi Group Jucheng Real Estate Development Co., Ltd. # (振石集團巨成置業有限公司)	note (i)	Services charges incurred	**–**	147
Inspirock Hotel Co., LTD.# (振石大酒店有限公司)	note (i)	Services charges incurred	**926**	798
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司)	note (i)	Services charges incurred	**281**	472
Tongxiang Kangshi Traditional Chinese and Western Medical Clinic# (桐鄉康石中西醫結合門診有限公司)	note (i)	Services charges incurred	**8**	138

20. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related parties	Relationship	Nature of transactions	For the six months ended 30 June	
			2017	2016
			RMB'000	*RMB'000*
			(Unaudited)	(Unaudited)
Tongxiang Huarui Automatic Control Technology and Equipment Co.,Ltd.# (桐鄉華鋭自控技術裝備有限公司)	note (i)	Purchase of raw materials	**–**	17
Zhengshi Yongchang Composites Co., Ltd.# (振石永昌複合材料有限公司)	note (i)	Sales of finished goods	**204**	–
Marquis Logistics, INC.	note (i)	Services charges incurred	**–**	562
Jushi Group Co., Ltd.# (巨石集團有限公司)	note (ii)	Purchase of raw materials	**7,601**	7,899
		Service income earned	**–**	22
P-D Jushi Interglas Co., Ltd.# (巨石攀登電子基材有限公司)	note (ii)	Purchase of raw materials	**1,154**	1,443
		Rental expense	**9**	18
Jushi France, SAS	note (ii)	Sales of finished goods	**166**	729
Temax Italia S.R.L.	note (ii)	Sales of finished goods	**187**	291
Jushi Singapore Pte. Ltd.	note (ii)	Sales of finished goods	**–**	539
Jushi India FRP Accessories	note (ii)	Sales of finished goods	**887**	421
Jushi Canada Fiberglass Co., Ltd.	note (ii)	Sales of finished goods	**434**	394
Jushi USA Fiberglass Co., Ltd.	note (ii)	Rental expense	**336**	137
China Jushi Co., Ltd.# (中國巨石股份有限公司)	note (ii)	Scrap sales earned	**314**	487
		Purchase of raw materials	**249,225**	311,376

20. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related parties	Relationship	Nature of transactions	For the six months ended 30 June	
			2017	2016
			RMB'000	*RMB'000*
			(Unaudited)	(Unaudited)
Jushi Spain S.A.	note (ii)	Sales of finished goods	**574**	1,191
Jushi Egypt for Fiberglass industry S.A.E	note (ii)	Purchase of raw materials	**8,652**	460
		Rental expense	**75**	–
		Rental income earned	**60**	–
Jushi Group (BZ) Sinosia Compositos Material Co.,Ltd.	note (ii)	Sales of finished goods	**2,576**	2,162
Jushi Group (HK) Sinosia Compositos Material Co.,Ltd.	note (ii)	Sales of finished goods	**624**	123
Shanghai Tianshi International Logistics Co., Ltd.# (上海天石國際貨運代理有限公司)	note (iii)	Services charges incurred	**14,038**	10,806

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

English translated name is for identification purpose only.

Notes:

(i) The management considers these entities 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.

20. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

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

	For the six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries and other benefits	**3,595**	2,862
Performance related bonus *(note)*	**138**	129
Retirement benefits schemes contribution	**50**	26
	3,783	3,017

Note:

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

21. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 25 August 2017.