CHINA HENGSHI FOUNDATION COMPANY LIMITED
中國恒石基業有限公司

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

(Stock code: 1197)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

INTERIM RESULTS HIGHLIGHTS

- The revenue of the Group for the six months ended 30 June 2017 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 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).

The board (the "**Board**") of directors (the "**Directors**") of China Hengshi Foundation Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2017 (the "**Review Period**"), together with the comparative figures for the six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		For the six months ended 30 June	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**594,004**	613,031
Cost of sales		**(376,255)**	(409,853)
Gross profit		**217,749**	203,178
Other income	*4*	**5,725**	16,752
Other gains and losses	*5*	**(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	*6*	**128,197**	138,652
Income tax expense	*7*	**(23,095)**	(26,938)
Profit for the period		**105,102**	111,714

	Notes	For the six months ended 30 June 2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
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)*	*9*	**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		**538,348**	510,597
Prepaid lease payments		**29,645**	30,033
Deferred tax assets		**12,439**	10,538
Deposits paid for acquisition of property, plant and equipment		**108,361**	78,695
		688,793	629,863
CURRENT ASSETS			
Inventories		**141,573**	126,132
Prepaid lease payments		**776**	776
Trade and other receivables	*10*	**394,076**	386,687
Bills receivables	*10*	**3,570**	36,500
Amounts due from related parties	*10*	**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	*11*	**48,055**	34,779
Bills payables	*11*	**132,950**	271,013
Amounts due to related parties	*11*	**123,937**	11,461
Amount due to a shareholder		**7**	7
Tax payable		**9,848**	12,579
Bank borrowings		**–**	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

	30/06/2017	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(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	**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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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.

4. 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	**790**	10,550
Scrap sales	**2,552**	2,316
Sundry income	**81**	420
Rental income	**60**	–
	5,725	16,752

5. 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 *(note)*	**–**	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

Note:

On 17 November 2014, 浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) ("**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.

6. 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

7. 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

Certain subsidiaries are located in the 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.

8. 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.

9. 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.

10. 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.

(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	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(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	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(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	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(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

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

(A) Trade and other payables

	30/06/2017	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payables	**15,253**	9,105
Deposits received from customers	**1,466**	1,230
Interest payables	**–**	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	31/12/2016
	RMB'000	*RMB'000*
	(Unaudited)	(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

(B) Bills payables

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

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

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 Group achieved a revenue of 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 Group achieved a revenue of 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 (浙江省國家税務局) and Zhejiang Provincial Local Taxation Bureau (浙江省地方税務局). 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.

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.

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.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the period of six months ended 30 June 2017 (as at 30 June 2016: Nil).

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering (the "**Net Proceeds**") received by the Company amounted to approximately RMB400.4 million. These proceeds have been utilized in accordance with the manners as set out 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**").

Use	**Proposed use of the Net Proceeds stated in the Prospectus and the Announcement** *(RMB Million)*	**Amounts utilized as at 30 June 2017** *(RMB Million)*	**Unutilized balance 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

CORPORATE GOVERNANCE CODE

The Group strives to maintain high standards of corporate governance in order to safeguard the interests of shareholders and enhance the corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange 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 conducted by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules of the Stock Exchange as its own Code of Conduct for securities transactions conducted by relevant Directors. After making specific enquires to all Directors, each of them has confirmed that they have complied with the required standards set out in the Model Code for the six months ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF 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.

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), 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. This interim results announcement and the unaudited consolidated interim financial statements 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 Group.

PUBLICATION OF INTERIM RESULTS AND 2017 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinahengshi.com.cn), while the 2017 Interim Report containing all information required by the Listing Rules will be dispatched to the shareholders and available on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 25 August 2017

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

Non-executive Directors:	*Mr. ZHANG Yuqiang (Chairman), Mr. ZHANG Jiankan, Mr. TANG Hsin-hua, Mr. WANG Yuan*
Executive Directors:	*Mr. ZHOU Tingcai, Ms. HUANG Junjun*
Independent non-executive Directors:	*Mr. Xie Guoping, Mr. PAN Fei, Mr. CHEN Zhijie*