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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2017	2016	Year-on-Year
	RMB'000	*RMB'000*	Change
Results			
Revenue	**1,216,593**	1,236,439	(1.61)%
Gross profit	**448,659**	420,721	6.64%
Profit before tax	**260,082**	312,193	(16.69)%
Profit for the year	**215,750**	252,833	(14.67)%
Total comprehensive income for the year	**211,169**	210,039	0.54%
Profit (loss) for the year attributable to:			
Owners of the Company	**214,049**	257,787	(16.97)%
Non-controlling interests	**1,701**	(4,954)	134.34%
	215,750	252,833	(14.67)%
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company	**209,481**	213,978	(2.10)%
Non-controlling interests	**1,688**	(3,939)	142.85%
	211,169	210,039	0.54%
Earnings per share – basic *(RMB)*	**0.21**	0.26	(19.23)%

The board (the "**Board**") of directors (the "**Directors**") of China Hengshi Foundation Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**" or "**we**") for the year ended 31 December 2017 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**Year ended 31 December 2017** *RMB'000*	Year ended 31 December 2016 *RMB'000*
Revenue	*3*	**1,216,593**	1,236,439
Cost of sales		**(767,934)**	(815,718)
Gross profit		**448,659**	420,721
Other income	*5*	**16,697**	35,648
Other gains and losses	*6*	**(23,462)**	37,508
Selling and distribution expenses		**(99,313)**	(84,224)
Administrative expenses		**(47,919)**	(54,250)
Research expenditure		**(34,020)**	(37,392)
Other expenses		**(500)**	(34)
Finance costs		**(60)**	(5,784)
Profit before tax	*7*	**260,082**	312,193
Income tax expense	*8*	**(44,332)**	(59,360)
Profit for the year		**215,750**	252,833

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – Continued

For the year ended 31 December 2017

	Notes	**Year ended 31 December 2017** *RMB'000*	Year ended 31 December 2016 *RMB'000*
Other comprehensive expense			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(4,581)**	(42,794)
Total comprehensive income for the year		**211,169**	210,039
Profit (loss) for the year attributable to:			
Owners of the Company		**214,049**	257,787
Non-controlling interests		**1,701**	(4,954)
		215,750	252,833
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**209,481**	213,978
Non-controlling interests		**1,688**	(3,939)
		211,169	210,039
Earnings per share – basic *(RMB)*	*10*	**0.21**	0.26

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment		**570,425**	510,597
Prepaid lease payments		**29,257**	30,033
Intangible asset		**1,214**	–
Deferred tax assets		**14,043**	10,538
Deposits paid for acquisition of property, plant and equipment		**88,253**	78,695
Financial assets at fair value through profit or loss ("**FVTPL**")		**6,321**	–
		709,513	629,863
Current assets			
Inventories		**144,817**	126,132
Prepaid lease payments		**776**	776
Trade and other receivables	*11*	**404,917**	386,687
Bills receivables		**159,988**	36,500
Amounts due from related parties		**9,866**	14,401
Pledged bank deposits		**154,354**	133,603
Bank balances and cash		**324,968**	269,397
		1,199,686	967,496
Current liabilities			
Trade and other payables	*12*	**191,139**	34,779
Bills payables		**352,231**	271,013
Amounts due to related parties		**3,043**	11,461
Amount due to a shareholder		**–**	7
Tax payable		**16,022**	12,579
Bank borrowings		**–**	50,000
Deferred revenue		**300**	300
		562,735	380,139
Net current assets		**636,951**	587,357
Total assets less current liabilities		**1,346,464**	1,217,220

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – Continued
At 31 December 2017

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Non-current liabilities		
Deferred tax liabilities	**9,594**	7,886
Deferred revenue	**1,950**	2,250
	11,544	10,136
Net assets	**1,334,920**	1,207,084
Capital and reserves		
Share capital	**6,207**	6,207
Reserves	**1,326,689**	1,202,665
Equity attributable to owners of the Company	**1,332,896**	1,208,872
Non-controlling interests	**2,024**	(1,788)
Total equity	**1,334,920**	1,207,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 23 February 2015. The Company's immediate and ultimate holding 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 consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

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

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	*Financial Instruments*[1]
IFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
IFRS 16	*Leases*[2]
IFRS 17	*Insurance Contracts*[4]
IFRIC-22	*Foreign Currency Transactions and Advance Consideration*[1]
IFRIC-23	*Uncertainty over Income Tax Treatment*[2]
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[1]
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*[1]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to IAS 40	*Transfers of Investment Property*[1]
Amendments to IAS 28	*As part of the Annual Improvements to IFRS Standards 2014-2016 Cycle*[1]
Amendments to IFRSs	*Annual Improvements to IFRSs 2015-2017 Cycle*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2021

3. REVENUE

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

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Multi-axial fabrics	**777,971**	828,489
Uni-direction fabrics	**343,515**	320,950
Woven roving combo mat	**34,981**	33,557
Stitched mat	**7,836**	6,779
E/PP compofil fabrics	**52,290**	46,664
Total	**1,216,593**	1,236,439

The following is an analysis of revenue classified by sales of its products as specified in the contracts during the year:

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Products specified in contracts for wind turbine blade sector	**886,216**	1,042,919
Other	**330,377**	193,520
Total	**1,216,593**	1,236,439

4. SEGMENT INFORMATION

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

Segment assets and liabilities

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

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

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
The PRC	**538,139**	599,558
Egypt	**88,625**	19,757
Other	**62,385**	10
Total	**689,149**	619,325

Revenue from major products

Details of the revenue from major products are set out in note 3.

Geographical information

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

	Year ended 31 December 2017	Year ended 31 December 2016
	RMB'000	*RMB'000*
Overseas markets		
Europe	**403,692**	372,255
North America	**220,830**	252,056
Asia *(note a)*	**72,379**	81,970
Latin America	**58,176**	44,289
Australia	**1,172**	645
Africa	**671**	294
	756,920	751,509
PRC market *(note b)*	**459,673**	484,930
Total	**1,216,593**	1,236,439

Notes:

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

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

Information about major customers

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

	Year ended 31 December 2017	Year ended 31 December 2016
	RMB'000	*RMB'000*
Customer A	**163,968**	221,934
Customer B	**139,020**	140,683
Customer C	**161,337**	150,198
Customer D	***note***	123,714
	464,325	636,529

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

5. OTHER INCOME

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Bank interest income	**5,960**	6,059
Government grants	**5,765**	22,922
Gain on scrap sales	**4,890**	4,752
Sundry income	**82**	1,915
	16,697	35,648

6. OTHER GAINS AND LOSSES

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Gain (loss) on financial instruments at FVTPL	**6,321**	(3,000)
Allowance for doubtful debts	**(15,406)**	(6,696)
Reversal of allowance for doubtful debts	**2,906**	6,696
Net Gain under the Compensation Agreement received	**–**	1,045
Loss on disposal of property, plant and equipment	**(17)**	(54)
Foreign exchange (loss) gain, net	**(17,266)**	39,517
	(23,462)	37,508

7. PROFIT BEFORE TAX

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Profit before tax has been arrived at after charging (crediting)		
Auditors' remuneration	**2,056**	2,250
Directors' emoluments	**5,614**	4,625
Other staff costs	**106,038**	91,498
Retirement benefit schemes contribution for other staff	**5,135**	5,291
Total staff costs	**116,787**	101,414
Capitalised in inventories	**6,569**	5,238
	110,218	96,176
Depreciation of property, plant and equipment	**68,502**	65,235
Amortisation of intangible assets	**87**	–
Release of prepaid lease payments	**776**	776
Total depreciation and amortisation	**69,365**	66,011
Capitalised in inventories	**7,056**	5,884
	62,309	60,127
Allowance for doubtful debts	**1,790**	2,837
Loss on disposal of property, plant and equipment	**17**	54
Cost of inventories recognised as expenses	**767,934**	815,718
Minimum lease payment in respect of rented premises	**1,351**	4,781

8. INCOME TAX EXPENSE

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Current tax		
Enterprise Income Tax (the "**EIT**") in the PRC	**44,296**	54,086
Other jurisdictions	**4**	672
	44,300	54,758
Under (over) provision in prior years	**1,800**	(396)
	46,100	54,362
Deferred tax (credit) charge	**(1,768)**	4,998
	44,332	59,360

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2017 of RMB0.0864 (2016: RMB0.0885) per share, totaling RMB86,400,000 (2016: RMB88,500,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**214,049**	257,787
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000,000**	1,000,000,000

11. TRADE AND OTHER RECEIVABLES

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Trade receivables	**411,787**	393,075
Less: allowance for doubtful debts	**(33,751)**	(21,280)
	378,036	371,795
Prepayments	**4,711**	3,369
Other taxes recoverable	**12,231**	2,818
Deposits	**423**	1,302
Other receivables *(note)*	**9,516**	7,403
	26,881	14,892
Trade and other receivables	**404,917**	386,687

Note: Other receivables included mainly advances to employees for business 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.

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Within 90 days	**243,282**	235,349
91 to 180 days	**107,581**	76,440
181 days to 1 year	**25,895**	60,006
1 to 2 years	**1,278**	–
	378,036	371,795

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

	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*
Within 90 days	**2,355**	14,251
91 to 180 days	**107,581**	76,440
181 days to 1 year	**25,895**	60,006
1 to 2 years	**1,278**	–
	137,109	150,697

Movements in the allowance for doubtful debts

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Balance at the beginning of the year	**21,280**	21,280
Allowance for doubtful debts	**15,406**	6,696
Reversal of allowance for doubtful debts	**(2,906)**	(6,696)
Bad debts written off	**(29)**	–
Balance at the end of year	**33,751**	21,280

12. TRADE AND OTHER PAYABLES

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Trade payables	**140,321**	9,105
Deposits received from customers	**3,666**	1,230
Interest payables	**–**	60
Other taxes payable	**13,096**	350
Payables for purchase of property, plant and equipment	**19,777**	6,568
Retention payable	**170**	578
Accrued listing expense	**–**	5,550
Transportation cost payables	**6,587**	5,843
Other payables	**7,522**	5,495
Trade and other payables	**191,139**	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 years.

	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Within 90 days	**139,618**	8,629
91 to 180 days	**551**	167
181 days to 1 year	**44**	245
1 to 2 years	**89**	45
Over 2 years	**19**	19
	140,321	9,105

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview and Segment Business Condition

Industry Review

1. *Global industry review*

According to the statistics on global wind power development in 2017 released by the Global Wind Energy Council, the global newly-installed wind power capacity was approximately 52.6GW (2016: 54.6GW), retreating 3.79 percentage points as compared with that for the same period last year, the global cumulative installed capacity reached 539.6GW (2016: 487.7GW).

The growth rate of the wind power market in China has further slowed down. In 2017, the newly-installed wind power capacity was approximately 19,500MW (2016: 23,370MW) in China (excluding Taiwan), retreating 16.56% as compared with that for the same period last year, with a lower decline rate than last year. The newly-installed wind power capacity still accounted for the largest global market share.

The European market hit a record high year in history. In 2017, the newly-installed wind power capacity reached a new record of 16,845MW, among which, Germany's newly-installed wind power capacity of 6,581MW was the highest among the European market. The UK market had strong performance, the French market rebounded, and Finland, Belgium, Ireland and Croatia also achieved new records.

The Indian market also had an outstanding performance during the year, with the newly-installed capacity reaching 4,148MW, which once again broke the country's record of newly-installed wind power capacity.

Besides, the offshore wind power had achieved unprecedented results in the offshore wind power market with the annual newly-installed wind power capacity of 4,331MW. Considering the European market only, the newly-installed offshore wind power capacity exceeded 3,000MW, increasing approximately 25% as compared with that for the same period last year.

2. *Domestic industry review*

(1) Review of major policies

In 2017, in order to achieve the goal to stabilize the installed capacity, to optimize the industrial layout, to resolve the issue of limitation of wind and electricity, and to improve the market environment, proposed by the "Wind Power Development under the 13th Five-Year Plan" (《風電發展「十三五」規劃》), National Development and Reform Commission of the PRC ("**NDRC**") and National Energy Administration ("**NEA**") further optimize, regulate and guide the sustained and healthy development of the wind power industry in respect of various aspects:

Strengthen the orderly development of renewable energy. NEA issued the "Guidance Opinion on the Implementation of Renewable Energy Development under the 13th Five-Year Plan" (《關於可再生能源發展「十三五」規劃實施的指導意見》) on 28 July 2017, calling for the ongoing healthy and orderly development of the renewable energy industry. At the same time, NEA also issued the "Plan on Expanding Construction Scale of Wind Power from 2017 to 2020" (《2017-2020年風電新增建設規模方案》), and proposed to increase installed wind power capacity by 110.41GW for 2017 to 2020 in total.

Advance wind power consumption to resolve the issue of wind curtailment. NEA issued the "Guidance Opinion on Energy Work for 2017" (《2017年能源工作指導意見》) on 10 February 2017, exercising strict control over the carrying out of additional grid connection projects in areas subject to serious issue of limitation of wind and electricity, and suspending the arrangement of new wind power project for any province whose wind curtailment ratio exceeds 20%. On 13 November 2017, NDRC and NEA jointly promulgated the "Implementation on Addressing the Issue of Hydro, Wind and PV Curtailment" (《解決棄水棄風棄光問題實施方案》), putting forward an overall requirement that significant progress shall be made in relieving the hydro, wind and PV curtailment in areas with seriously limited supply of electricity of renewable energy in 2017. According to the data published by NEA, in 2017, the national wind curtailment reduced by 7.8 billion kilowatt-hours as compared with that for the same period last year, while the wind curtailment rate decreased by 5.2 percentage points as compared with that for the same period last year, which significantly improved the condition of wind curtailment.

Encourage distributed wind power development. NEA released the "Notice on the Requirements of Accelerating Decentralized Access to Wind Power Construction Projects" (《關於加快推進分散式接入風電項目建設有關要求的通知 》) on 27 May 2017, calling for accelerated promotion of the development of decentralized wind power, the standardization of construction standards and the orderly pushing for the construction of relevant projects. On 13 November 2017, NDRC and NEA jointly promulgated the "Notice on Carrying out Pilot Projects for Market-Oriented Transactions for Distributed Power Generation" (《關於開展分佈式發電市場化交易試點的通知》), specifying that areas with greater demand for electricity and good condition for grid connection, where nearby grid connection and power consumption are possible, will be selected as pilot areas first.

Reduce tax and fee burden while deepening reform of pricing mechanism. NEA issued the "Notice on Reducing Business Related Tax and Fee Burden in the Renewable Energy Sector" (《關於減輕可再生能源領域涉企稅費負擔的通知》) on 31 August 2017, specifying the polices on reduction and exemption of tax and fee for renewable energy enterprises in accordance with actual situation where the renewable energy enterprises generally undertake heavy tax and fee burden. On 8 November 2017, NDRC issued the "Opinion on Fully Deepening the Reform of Pricing Mechanism" (《關於全面深化價格機制改革的意見》), stipulating that the pricing mechanism of renewable energy shall be consummated, and the retrograde mechanism of benchmarking feed-in tariff of such new energies as wind power and solar power shall be implemented in accordance with technological advance and market supply and demand, and that the wind power will have similar feed-in tariff with coal-fired power generation in 2020.

(2) Review of the development of the industry

Affected by factors including the change in the direction on subsidizing the wind power industry and stricter control over the issue of wind curtailment by the Chinese government, the wind power market in China has retained to reasonable development since the newly-installed capacity reached the peak of 30.5GW in 2015. The wind power market in China continued its overall correction in 2017, especially the general slowdown of wind power construction in the "Three North Region". According to the statistics released by the Global Wind Energy Council, the newly-installed wind power capacity throughout China (excluding Taiwan) in 2017 was 19.50 million kilowatts (2016: 23.37 million kilowatts), representing a year-on-year decrease of 16.56%.

Business Review

During the Reporting Period, the Group achieved revenue of approximately RMB1,216.6 million, representing a decrease of approximately of 1.61% as compared with that for the same period last year, among which, approximately RMB886.2 million was the sales revenue of related products in wind turbine blade industry, representing a year-on-year decrease of 15.03%. The gross profit achieved was approximately RMB448.7 million, representing a year-on-year increase of approximately 6.64%. The net profit was approximately RMB215.8 million, representing a year-on-year decrease of approximately 14.67%. The difference between the net profit of the Reporting Period and the same period last year was mainly attributable to the fact that: (i) the government grant received last year was approximately RMB22.9 million while those received during the Reporting Period was approximately RMB5.8 million only; and (ii) affected by RMB appreciation, net exchange loss was approximately RMB17.3 million, comparing with net exchange gain of approximately RMB39.5 million for the same period last year.

ANALYSIS AND DISCUSSION ON THE RESULTS

As the world's leading manufacturer and supplier of fiberglass fabrics used in wind turbine blades benefitted from the predominant leading position in the industry, forward-looking global strategic layout and increasing research and development ("**R&D**") capabilities during the Reporting Period, the Group accelerated the development of new customers and new products, resulting in a significant improvement on customer and product testing and certification capabilities, further boost in operation capability development and refinement management, and steady proceeding of the overseas production base layout. As the wind power industry in the PRC was under adjustment, although some production operation indicators suffered different levels of decline, the decline rate was lower than the overall decline rate of the industry, and we still maintained a leading position in the industry in terms of market share.

1. Production and sales

During the Reporting Period, leveraging on its advantages in the globalization layout, the well-established brand awareness and a wide range of customer base in China and the oversea, the Group effectively hedged the market fluctuation risk. While the domestic newly-installed wind power capacity significantly reduced by 16.56%, sales revenue was approximately RMB1,216.6 million, which merely decreased by approximately 1.61% as compared with that for the same period last year. Among which, the overseas market maintained a steady growth, which achieved overseas customers' sales revenue (including sales from the Group to the PRC factories of overseas customers) of approximately RMB756.9 million, representing a year-on-year increase of approximately 0.72%. The sales revenue of the domestic market was approximately RMB459.7 million, representing a year-on-year decrease of approximately 5.21%.

The following table shows the newly-installed wind power capacity and the sales of the Group's products in domestic market and overseas market and their movements for the years 2017 and 2016:

		For the year ended 31 December		Year-on-Year
		2017	2016	Changes
Domestic Market	Newly-installed wind power capacity[(a)] *(MW)*	19,500	23,370	(16.56)%
	Sales of the Group[(b)] *(RMB million)*	459.7	484.9	(5.21)%
Overseas Market	Newly-installed wind power capacity *(MW)*	33,073	31,272	5.76%
	Sales of the Group *(RMB million)*	756.9	751.5	0.72%

Notes:

(a) Excluding Taiwan.

(b) Excluding Hong Kong, Macau and Taiwan.

2. Market development

During the Reporting Period, by fully leveraging on our first-mover advantages of the international strategy and the favorable conditions of proximity of overseas factories to our customers, we further strengthened and deepened the cooperation relationship with existing customers. As of 2017, the Group has established cooperation relationships with the global top 10 manufacturers of wind turbine and turbine blades.

In 2017, grasping the opportunity of stable growth in the overseas wind power market, we continued to optimize the market structure and expanded our overseas market share. During the Reporting Period, the overseas sales (including sales from the Group to the PRC factories of overseas customers) increased by 0.72% as compared with that for the same period last year. The sales from the overseas market accounted for 62.22%, representing a year-on-year increase of 1.44%. The adjustment and optimization of market structure had played a crucial role in protecting the Group from the risks arising from the domestic market, as well as paving a sound foundation for further growth of the overseas market going forward.

In 2017, we continued to enhance the development of testing and certification of customers and product. During the Reporting Period, we successfully secured three new customers from the wind power sector, five non-wind power customers, as well as having a total of 37 products passing the testing and certification by our customers and available for use in bulks by approximately 20 customers, both existing and new. Also, we successfully promoted the application of the high modulus products of fiberglass fabrics (E7 fiberglass fabrics and E8 fiberglass fabrics) in the manufacture of big-turbine blades and offshore wind power turbine blades, thereby setting up a concrete foundation for the Group in penetrating into the high-end market of wind power turbine blades.

3. Production management and creative optimization

During the Reporting Period, we have actively promoted the measure of "innovating management with reducing cost and increasing efficiency". By introducing the digital management system, we have achieved the comprehensive and integrated management of the sales order and delivery, production planning and warehousing and process technology and specifications, and effectively improved the automation, informationization and intellectualization in production management, thereby enhancing the production efficiency and the product quality stability.

During the Reporting Period, 浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) ("**Hengshi Fiberglass**"), a wholly-owned subsidiary of the Company, was granted "Mayor Quality Award" by the People's Government of Jiaxing City 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 a leading position in the region, but also they made great contributions to local economic and social development.

In 2017, Hengshi Fiberglass was granted the "Best EH&S Supplier" (最佳環境健康安全供應商) award by Siemens Gamesa Renewable Energy (西門子－歌美颯可再生能源公司) ("**Siemens Gamesa**") at the Siemens Gamesa 2017 Supplier's Day, which shows Hengshi Fiberglass has received full affirmation and recognition from international customers for areas of environmental protection and occupational health and safety assurance.

4. Technical R&D

The continually improved capability in technical R&D and innovation is one of the Group's core competitive advantages. During the Reporting Period, we continued to promote the R&D and innovation of product and process technologies, combined technological innovation with product optimization and upgrading, and continuously consolidated and strengthened our technological advantages, so as to enhance the overall competitiveness of the Group's products and to maximize the value of our customers.

During the Reporting Period, Hengshi Fiberglass was certified as an "Enterprise Technical Centre in Zhejiang Province" by Department of Science and Technology of Zhejiang Province in the PRC, which demonstrates that Hengshi Fiberglass has relatively well-established conditions for research, development and testing, and ranks forefront among domestic counterparts in respect of various comprehensive economic and technical indicators and technological development capabilities. The accreditation as an Enterprise Technical Centre in Zhejiang Province will further drive the rapid and steady development of the Group in technology innovation, talent cultivation and system improvement etc.

The Group continued to promote the enhancement of core R&D capability. During the Reporting Period, there were additional 14 authorized patents, representing a year-on-year increase of 35%.

During the Reporting Period, Hengshi Fiberglass was jointly certified as a "Patent Demonstration Enterprise in Zhejiang Province" by Zhejiang Provincial Intellectual Property Office and Zhejiang Province Economic and Information Commission in the PRC. Such an award is mainly granted to enterprises which have sound patent management system with sales of patented product accounting for more than 50% of total sales, and whose technological innovation and patent work significantly contributed to the development of enterprises.

5. Overseas subsidiaries

The Group continued to uphold the international development strategy and gradually proceeded the construction of overseas production base, so as to fully unleash the Group's leading market advantages that were accumulated through the Group's long-term profound exploration in international market, thereby enabling the Group in keeping abreast with the market, customers, and providing better products and services for overseas customers.

During the Reporting Period, the Hengshi Egypt Fiberglass Fabrics S.A.E. ("**Hengshi Egypt**") Phase II Expansion Plan has been put into operation in April 2017. As the first overseas production base formally put into operation by the Group, benefiting from shorter haul distance, its operation will further reduce the costs for customers, strengthen the security of supply and enhance the customer's confidence and satisfaction, thereby consolidating and enhancing the market position and shares of the Group.

During the Reporting Period, the plant renovation of the Hengshi USA Wind Power Materials Corporation ("**Hengshi USA**") production base has been basically completed. The procurement and installation of relevant equipment and auxiliary facilities and production arrangements has been in full swing, and it is expected that the plant can 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 Reporting Period, the revenue of the Group amounted to approximately RMB1,216.6 million, representing a year-on-year decrease of approximately RMB19.8 million or 1.61%. The decrease in revenue was mainly attributable to: (i) the continuing overall correction of the domestic wind power market during the Reporting Period resulted in a significant decrease of approximately 16.56% in the domestic newly-installed wind power capacity, leading to an unavoidable decrease in the sales volume of the Group in the domestic market; and (ii) the average price of the Group's fiberglass fabrics underwent downward adjustment along with the increasing concentration of the industry chain of the global wind power industry, which imposed greater pressure on pricing of the fiberglass fabrics companies from upper stream electricity generating corporates, wind turbine blades and wind turbine manufacturing corporates, together with the competition landscape of over-supply in the overall global fiberglass fabrics market.

Cost of sales

During the Reporting Period, the cost of sales of the Group amounted to approximately RMB767.9 million, representing a year-on-year decrease of approximately RMB47.8 million or 5.86%. The decrease in cost of sales was mainly attributable to the decrease in sales of the Group during the Reporting Period as compared with that for the same period last year.

Gross profit

During the Reporting Period, the gross profit of the Group amounted to approximately RMB448.7 million, representing a year-on-year increase of approximately RMB27.9 million or 6.64%. The increase in gross profit was mainly attributable to: (i) the synergy effect arising from the Group's global layout for production capacity has taken effect for the first time; and (ii) the decrease in price of key raw materials.

Other income

During the Reporting Period, other income of the Group amounted to approximately RMB16.7 million, representing a year-on-year decrease of approximately RMB19.0 million or 53.16%. The decrease in other income was mainly attributable to the fact that the government grants received by the Group in 2016 were approximately RMB22.9 million while those received by the Group during the Reporting Period were approximately RMB5.8 million only.

Other gains and losses

During the Reporting Period, other losses of the Group amounted to approximately RMB23.5 million, representing a year-on-year decrease of approximately RMB61.0 million or 162.55% comparing with other gains of approximately RMB37.5 million for the same period last year. The increase in other losses was mainly due to the effects of the following net amount: (i) affected by RMB appreciation, net exchange loss was approximately RMB17.3 million, comparing with net exchange gain of approximately RMB39.5 million for the same period last year; and (ii) the net provision for bad debts increased by approximately RMB12.5 million.

Selling and distribution expenses

During the Reporting Period, selling and distribution expenses of the Group amounted to approximately RMB99.3 million, representing an increase of approximately RMB15.1 million or 17.92% as compared with that for the same period last year. The increase in selling and distribution expenses was mainly attributable to (i) the increase in transportation fee due to the increase in overseas sales; (ii) more overseas customers requiring settlement at CIF (international trade term, abbreviation for cost, insurance and freight) price than before; and (iii) the purchase of export credit insurance for accounts receivable.

Administrative expenses

During the Reporting Period, total administrative expenses of the Group amounted to approximately RMB47.9 million, representing a decrease of approximately RMB6.3 million or 11.67% as compared with that for the same period last year. The decrease in administrative expenses was mainly attributable to further enhancement of internal control with the implementation of refinement management by the Group.

Research expenditure

During the Reporting Period, total research and development expenditure of the Group amounted to approximately RMB34.0 million, which was basically the same as in 2016.

Finance costs

During the Reporting Period, finance costs of the Group amounted to approximately RMB0.06 million, representing a year-on-year decrease of approximately RMB5.7 million or 98.96%. The decrease in finance costs was mainly attributable to the absence of bank borrowings during the Reporting Period.

Income tax expense

During the Reporting Period, the income tax expense of the Group amounted to approximately RMB44.3 million, representing a year-on-year decrease of approximately RMB15.0 million. The decrease in income tax expense was mainly due to the decrease in profit before tax resulting from the decrease in results in 2017 as compared with that of 2016.

Profit of the year

In view of the reasons above, the profit during the Reporting Period amounted to approximately RMB215.8 million (2016: RMB252.8 million), representing a year-on-year decrease of approximately RMB37.0 million or 14.64%.

Liquidity and finance resources

As at 31 December 2017, the Group's non-current assets amounted to approximately RMB709.5 million (31 December 2016: RMB629.9 million). As at 31 December 2017, the Group's current assets amounted to approximately RMB1,199.7 million (31 December 2016: RMB967.5 million), including the balance of cash and cash equivalents (inclusive of pledged bank deposits) of approximately RMB479.3 million as at 31 December 2017 (31 December 2016: RMB403.0 million). As at 31 December 2017, the Group's non-current liabilities and current liabilities amounted to approximately RMB11.5 million and RMB562.7 million, respectively (31 December 2016: RMB10.1 million and RMB380.1 million, respectively), mainly including the payables incurred in the normal course of business.

Inventories

As at 31 December 2017, inventories amounted to approximately RMB144.8 million, representing a year-on-year increase of approximately RMB18.7 million or 14.81%. The increase in inventories was mainly attributable to the preparation of raw materials and finished products in advance with the Group's anticipation of increase of sales in 2018.

Trade and other receivables

As at 31 December 2017, trade and other receivables amounted to approximately RMB404.9 million, representing an increase of approximately RMB18.2 million or 4.71% as compared with that of 2016. The increase in trade and other receivables was mainly attributable to (i) the increase in trade receivables of domestic customers; and (ii) the corresponding increase in trade receivables due to the full production of Hengshi Egypt.

Trade and other payables

As at 31 December 2017, trade and other payables amounted to approximately RMB191.1 million, representing an increase of approximately RMB156.4 million or 450% as compared with that of 2016. The sharp increase in trade and other payables was mainly attributable to (i) the increase in the payables for the Group's purchase of raw materials from suppliers; (ii) the increase in the payables in respect of the machine equipment procurement for expansion of production capacity in oversea production bases; and (iii) considering the credit risk factor, as at 31 December 2017, the endorsed bills receivables and the corresponding payables to be settled have not been finally derecognised, resulting in an increase in the corresponding payables.

Exchange rate risk

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

Capital commitments and contingent liabilities

As at 31 December 2017, the aggregate capital commitments of the Group amounted to approximately RMB15.7 million (31 December 2016: RMB41.4 million), with the principal capital commitments from the capital expenses for expansion of production capacity in oversea production bases. As at 31 December 2017, the Group did not have any material contingent liabilities.

Borrowings and pledge of assets

As at 31 December 2017, the Group did not have any bank borrowings (31 December 2016: RMB50.0 million).

As at 31 December 2017, the property, plant and equipment and prepaid lease payment with a carrying value of approximately RMB115.5 million (31 December 2016: RMB141.2 million) have been pledged for securing the borrowing and obtaining financing facilities.

Gearing ratio

As at 31 December 2017, the Group's gearing ratio (calculated as the total liabilities divided by total assets multiplied by 100%) was approximately 30.08% (31 December 2016: approximately 24.43%).

Material acquisitions and disposals

During the Reporting Period, the Group did not have any material acquisitions and disposals of subsidiaries or associates.

Employment and remuneration policies

As at 31 December 2017, the Company had 1,235 employees in total (31 December 2016: 1,029 employees). The increase in the number of employees was mainly attributed to the increase in personnel hired for the possession of talents of Hengshi Fiberglass and the commencement of full production of Hengshi Egypt during the Reporting Period. The remuneration policy of the Group for employees was set up by the Board based on their respective experience, qualification and responsibilities. Other employee benefits include Housing Provident Funds, and social insurances, etc.

BUSINESS OUTLOOK

i. Trend of the development of the industry

1 Trend of the development of the global industry

(1) Global installed wind power capacity continues to grow

According to Global Wind Energy Council's forecast, the global cumulative installed wind power capacity will continue to maintain an over 10% growth in the next five years, which is expected to reach 817GW by 2021 and to become a significant source of global green energy power generation.

(2) Offshore wind power has become a new driving force for the development of the global industry

The focus of the growth of future global wind power market will gradually shift from onshore wind power to offshore wind power due to the stability and high-power electricity generation featured by the sea wind resources. According to Bloomberg New Energy Finance's forecast, the CAGR of the global offshore wind power capacity will reach 16% from 2017 to 2030, with the total installed capacity increasing from 17.6GW to 114.9GW. WindEurope expects that the European newly-installed offshore wind power capacity will reach 70.2GW by 2030. As shown in International Renewable Energy Agency's latest report "Global Landscape of Renewable Energy Finance", the investment in offshore wind power has increased four times to US$25 billion since 2013, which further demonstrated there will be a large market for offshore wind power development.

(3) Global wind power prices are falling to grid-parity

With the constant innovation of wind power technology and industry scale, the global average price of wind power will continuously decrease in the future and it is expected to achieve grid-parity. Data released by Bloomberg New Energy Finance indicates that the cost of global onshore wind power in 2017 has decreased to US$6.7 cents per kWh, which has become the most economical green power. In "The Power to Change: Solar and Wind Cost Reduction Potential to 2025", International Renewable Energy Agency predicts that the cost of onshore wind power will decrease to US$5 cents per kWh by 2025 along with the increase in fan capacity coefficient and the decrease in investment cost.

2 *Trend of the development of the domestic industry*

(1) *Wind power industry has entered a new period of benign development*

With the gradual implementation of "Wind Power Development under the 13th Five-Year Plan" (《風電發展「十三五」規劃》) which is centered on industrial optimization, in the future, the core element that affects the demand of wind power industry will be transformed from "government grant" to "an increase in utilization hours as a result of the improvement of the issue of wind curtailment", which improves the profitability of stock power stations, enhancing previous owner's investment intentions and attracting new owners to invest in wind power farms as well. The domestic wind power industry is expected to get rid of the unfavourable grant-oriented development and step into the path of sustainable and healthy development.

(2) *Market demand for wind power grows steadily*

According to the "Plan for the New Construction of Wind Power from 2017 to 2020" (《2017-2020年風電新增建設規模方案》) issued by NEA, the domestic newly-installed wind power capacity will reach 80GW in the next three years. According to the "New Energy Outlook Report in 2017" (《2017新能源展望報告》) issued by Bloomberg New Energy Finance, it is estimated that the PRC will have more than 200GW of the cumulative installed wind power capacity by 2020 and will face a wave of growth of wind power by 2030.

(3) *Distributed wind power and offshore wind power become the priorities of future development*

After the government issued a number of policies to support and accelerate the development and construction of distributed wind power in 2016, in 2017, the government further upgraded its support for distributed wind power. The efforts include the proposal that the distributed wind power project to be free from the restriction of annual guidance scale, formulation of construction standards, enhancement of planning management and advance of the pilot program for market-oriented trading of distributed wind power. The distributed wind power is expected to contribute substantial increase to domestic wind power market under the driving of policies.

According to the "Wind Power Development under the 13th Five-Year Plan" (《風電發展「十三五」規劃》) issued by NEA, the installed capacity of offshore wind power grid-connected shall be above 5 million kilowatt by the end of 2020; NDRC and the State Oceanic Administration of the PRC jointly issued the "National Ocean Economic Development under the 13th Five-Year Plan" (《全國海洋經濟發展「十三五」規劃》), which proposed the site-specific and reasonable development of offshore wind power industry. It also encouraged the construction of offshore wind farm in distant water, adjustment of the grid connection policy for wind power, and optimisation of the technical standard systems and standards for marine use in the offshore wind power industry. In addition, it also planned to strengthen the R&D of 5MW, 6MW and above high power offshore wind power equipment, to achieve breakthrough in key technology of offshore substantiation and submarine power transmission, and to extend to auxiliary offshore wind power industries such as energy storage devices and smart grid. The offshore wind power supported by policies will become an important force driving the growth of industry demand.

ii. Development strategies

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

iii. Operating plans and major targets

1 Market

(1) Overseas market

We fully utilize international market resources that the Group has continuously developed and carefully maintained over the years and the advantages of "supply the overseas market with overseas plants" applied by Hengshi Egypt and Hengshi USA, so as to provide the overseas customers with better products and services to increase their satisfaction; to thoroughly expand the scope of cooperation with new and existing customers and deeply excavate the cooperation space to continuously increase the supply proportion to them; to actively maintain customers, solidify and strengthen the cooperation relationship with existing quality customers and establish a multi-dimensional communication mechanism with customers to improve their trust; and to continue proceeding the Group's global supply chain layout and striving to maintain the Group's position as the top supplier in the overseas market.

(2) Domestic market

We will actively capitalize the policy support for domestic distributed wind power and offshore wind power to vigorously promote the R&D, certification and market development applicable to distributed wind power and offshore wind power products. While focusing on the development of wind power market, we should also take into account the new product development and marketing of non-wind power composite materials, so as to foster new profit growth point.

2 Overseas subsidiaries

In 2018, the Group will continue strengthening the guidance and support for operation management and market development of its overseas subsidiaries, and keep coordinating and managing the procurement and financial arrangements, production organization management, production planning and sales, product quality control and other aspects of its overseas subsidiaries, so as to ensure that their production, operation and management are conducted in a smooth and orderly manner.

3 Quality

In 2018, the Group will continue to strengthen the concept of "product quality and enterprise credibility as the life of an enterprise", optimize the quality control structure from the top level of design, further consolidate the quality control system, continue the enhancement over the control of production process, and build a comprehensive quality guard system, thereby achieving sustainable improvement in quality control.

4 Production

In 2018, the Group will continue to transform, upgrade and optimize the production equipment and process technologies. We will also actively improve innovation ability; continuously optimize the compatibility of production process and equipment; and further step up the production management level in areas including automation, informationization, intellectualization and refinement, so as to continuously strengthen the core competitiveness of the Group.

5 Product

In 2018, the Group will actively seize the opportunity for the development of distributed wind power and offshore wind power; to continue to increase the technical innovation efforts to provide product solutions that can better meet customers' requirements; and to actively expand the application of fiberglass fabrics in non-wind field to gather new momentum for the sustainable growth of the Group.

FINAL DIVIDENDS

The Board recommends to distribute a final dividend in respect of the year ended 31 December 2017 at RMB0.0864 (2016: RMB0.0885) per share, which is subject to the approval from the shareholders (the "**Shareholders**") of the Company at the forthcoming annual general meeting (the "**AGM**") to be held on Friday, 11 May 2018 and is expected to be distributed on Monday, 28 May 2018 to the Shareholders whose names appeared on the register of members of the Company on Monday, 21 May 2018.

CLOSURE OF REGISTER OF MEMBERS

(i) Annual general meeting

In order to determine the identity of Shareholders who are entitled to attend at the AGM, the register of members of the Company will be closed from Tuesday, 1 May 2018 to Friday, 11 May 2018, both days inclusive.

In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30 April 2018.

(ii) Payment of the proposed final dividend

In order to determine the identity of Shareholders who are entitled to the final dividend, the register of members of the Company will also be closed from Thursday, 17 May 2018 to Monday, 21 May 2018, both days inclusive. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 16 May 2018.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

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

The table below sets out the detailed items on the use of net proceeds from the initial public offering as of 31 December 2017:

Use	Proposed use of the net proceeds from the initial public offering as stated in the Prospectus and the Announcement *(RMB million)* approximately	Amounts utilized of the net proceeds from the initial public offering as at 31 December 2017 *(RMB million)* approximately	Unutilized balance of the net proceeds from the initial public offering as at 31 December 2017 *(RMB million)* approximately
Hengshi Phase IV expansion plan, as to:	70.2	69.8	0.4
Construction of production facilities	27.3	26.9	0.4
Purchase of manufacturing equipment and auxiliary equipment	42.9	42.9	0.0
U.S. expansion plan	60.0	60.0	0.0
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	400.0	0.4

CORPORATE GOVERNANCE CODE

The Group strived to maintain high standards of corporate governance in order to safeguard the interests of Shareholders and enhance the corporate value and accountability. The Company has adopted the 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. From 1 January 2017 to 31 December 2017, the Company has complied with all the code provisions set out in the CG Code. The Company will continue to review and monitor its corporate governance practices to ensure the compliance with 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 (the "**Model Code**") as its own code of conduct regarding securities transactions conducted by Directors. After making specific enquires to all Directors, all of them have confirmed that they have complied with the required standards set out in the Model Code from 1 January 2017 to 31 December 2017.

PURCHASES, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CONTINUING CONNECTED TRANSACTIONS

On 29 December 2017 (after trading hours), the Company entered into (i) the framework agreement with Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd. (振石集團浙江宇石國際物流有限公司) ("**Yushi International**") in relation to the procurement of logistics services from Yushi International by the Group (the "**2018 Yushi International Framework Agreement**"), and (ii) the framework agreement with Shanghai Tianshi International Logistics Co., Ltd. (上海天石國際貨運代理有限公司) ("**Shanghai Tianshi**") in relation to the procurement of export agent services from Shanghai Tianshi by the Group (the "**2018 Shanghai Tianshi Framework Agreement**"), both for a term of one year commencing from 1 January 2018 and ending on 31 December 2018.

On 19 March 2018 (after trading hours), the Company entered into (i) the framework agreement with Yushi International in relation to the procurement of logistics services from Yushi International by the Group (the "**2019-2020 Yushi International Framework Agreement**"), and (ii) the framework agreement with Shanghai Tianshi in relation to the procurement of export agent services from Shanghai Tianshi by the Group (the "**2019-2020 Shanghai Tianshi Framework Agreement**"), both for a term of two years commencing from 1 January 2019 and ending on 31 December 2020.

The transactions contemplated under each of the 2018 Yushi International Framework Agreement, the 2018 Shanghai Tianshi Framework Agreement, the 2019-2020 Yushi International Framework Agreement and the 2019-2020 Shanghai Tianshi Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Please refer to the Company's announcements dated 1 January, 19 January, 23 January and 19 March 2018, respectively.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group with the management and external auditors of the Company, and has examined the annual results for the year ended 31 December 2017. Deloitte Touche Tohmatsu, the auditor of the Group, has agreed with the figures in the preliminary announcement of annual results of the Group for the year ended 31 December 2017.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT FOR THE YEAR 2017 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinahengshi.com.cn). The annual report for the year 2017 containing all information required by the Listing Rules will be despatched to the Shareholders and be 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, 23 March 2018

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. LOU Hetong, Mr. ZHAO Jun*