中國恒石基業有限公司
China Hengshi Foundation Company Limited

(Incorporated under the laws of the Cayman Islands with limited liability)
Stock code : 1197

ANNUAL REPORT 2017

CONTENTS

Corporate Profile

China Hengshi Foundation Company Limited (the "**Company**" or "**China Hengshi**") and its subsidiaries (the "**Group**" or "**we**") is the world-leading producer and supplier of fiberglass fabrics used in wind turbine blades and is the only PRC-based company among the top three manufacturers and suppliers in the world. The Company has the largest exporting volume of fiberglass fabrics used in wind turbine blades in the People's Republic of China (the "**PRC**").

We offered five types of fiberglass fabrics: multi-axial fabrics, uni-directional fabrics, woven roving combo mats, stitched mats and E/PP compofil fabrics. Among these products, multi-axial fabrics and uni-directional fabrics are our key products, most of which are used in the wind power generation sector, and the remaining products are mainly sold to customers in a variety of other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods.

As of now, the Company owns three production bases in Zhejiang of the PRC, Suez of Egypt and State of South Carolina of United States (under construction). Its products are exported to countries and regions including Europe, America, Middle East, and Southeast Asia, and enjoy a relatively high credibility in both domestic and overseas markets. Our major customers are well-known wind turbine manufacturers who are the top 10 players in global wind power industry.

Adhering to the mission of "aiming at maintaining and improving our living environment, developing renewable energy sources business, providing our customers with materials and solutions, and creating the maximum value to staff, shareholders, customers and stakeholders", the vision of "devoting to be the world leading manufacturing enterprise of fabrics for wind energy industry" and the core ideology of "conduct, innovation, responsibility, learning, enthusiasm", the Company is continuously making efforts and improving to create more value for its shareholders, customers and partners.

Corporate Information

BOARD OF DIRECTORS

Non-executive Directors

Mr. ZHANG Yuqiang *(Chairman)*
Mr. ZHANG Jiankan
Mr. TANG Hsin-hua
Mr. WANG Yuan

Executive Directors

Mr. ZHOU Tingcai
Ms. HUANG Junjun

Independent Non-executive Directors

Mr. FANG Xianbai (resigned on 21 May 2017)
Mr. XIE Guoping (appointed on 22 May 2017)
Mr. PAN Fei (resigned on 6 March 2018)
Mr. CHEN Zhijie (resigned on 6 March 2018)
Mr. LOU Hetong (appointed on 6 March 2018)
Mr. ZHAO Jun (appointed on 6 March 2018)

AUDIT COMMITTEE

Mr. FANG Xianbai (*Chairman,* resigned on 21 May 2017)
Mr. XIE Guoping (*Chairman*, appointed on 22 May 2017)
Mr. WANG Yuan
Mr. PAN Fei (resigned on 6 March 2018)
Mr. LOU Hetong (appointed on 6 March 2018)

REMUNERATION COMMITTEE

Mr. FANG Xianbai (*Chairman,* resigned on 21 May 2017)
Mr. XIE Guoping (*Chairman*, appointed on 22 May 2017)
Mr. ZHANG Jiankan
Mr. PAN Fei (resigned on 6 March 2018)
Mr. LOU Hetong (appointed on 6 March 2018)

NOMINATION COMMITTEE

Mr. ZHANG Yuqiang *(Chairman)*
Mr. FANG Xianbai (resigned on 21 May 2017)
Mr. XIE Guoping (appointed on 22 May 2017)
Mr. CHEN Zhijie (resigned on 6 March 2018)
Mr. ZHAO Jun (appointed on 6 March 2018)

JOINT COMPANY SECRETARIES

Mr. YIN Hang
Ms. WONG Sau Ping (resigned on 26 April 2017)
Mr. LUI Chi Ho (appointed on 26 April 2017)

AUTHORISED REPRESENTATIVES

Mr. YIN Hang
Ms. HUANG Junjun

REGISTERED OFFICE

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

HEADQUARTERS

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

39/F, Gloucester Tower
The Landmark
15 Queen's Road Central, Central
Hong Kong

COMPANY WEBSITE

www.chinahengshi.com.cn

STOCK CODE

1197

AUDITOR

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

LEGAL ADVISER

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

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

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

LISTING DATE

21 December 2015

Five-Year Financial and Operating Highlights

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

	Year ended 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Operating results					
Revenue	**1,216,593**	1,236,439	1,002,901	678,600	405,393
Gross profit	**448,659**	420,721	298,521	190,659	84,441
Profit for the year	**215,750**	252,833	181,492	131,734	78,110
Profit for the year attributable to:					
Owners of the Company	**214,049**	257,787	181,977	131,789	78,110
Non-controlling interests	**1,701**	(4,954)	(485)	(55)	–
	215,750	252,833	181,492	131,734	78,110
Earnings per share – basic (RMB)	**0.21**	0.26	0.25	0.21	0.14

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Non-current assets	**709,513**	629,863	589,026	490,653	352,406
Current assets	**1,199,686**	967,496	1,100,747	634,326	731,734
Total assets	**1,909,199**	1,597,359	1,689,773	1,124,979	1,084,140
Total liabilities	**574,279**	390,275	638,135	575,070	667,419
Total equity	**1,334,920**	1,207,084	1,051,638	549,909	416,721

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Hengshi, I am pleased to present the annual report of the Company (the "**Annual Report**") for the year ended 31 December 2017 (the "**Reporting Period**").

In 2017, global economy revived moderately. The economy finally speeded up towards actually growth. However, trade protectionism rose to bring in uncertainties to economic development. Developed economy recovered steadily in general, of which the U.S.'s economy had robust recovery and Euro zone's economy continued to improve. Overall, economy of emerging markets grew faster, but it still came under pressure to adjustment and transformation. Benefitted from continuous promotion of "supply-side structural reforms", economy in the PRC continued to grow amid stability, maintaining its favorable development trend by recording a GDP growth rate of 6.9% in 2017, which achieved the first acceleration for the past seven years. The constant release of economic vitality, motivation and potential, and the significant enhancement of stability, coordination and sustainability have arrived in stable and health development.

In 2017, the development of global wind power industry was still under the phase of adjustment. Investment scale and newly-added wind power capacity experienced markedly slowdown in growth. According to the latest annual data from Bloomberg New Energy Finance, the aggregate investment amount in global clean energy reached US$333.5 billion in 2017, representing a growth of 3% as compared to that in 2016. Among which, the aggregate investment amount of global wind power was US$107.2 billion, representing a decrease of 12% as compared to that in 2016. Wind power is still the largest clean energy technology in terms of investment scale other than photovoltaic. 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).

As the world leading manufacturer and supplier of fiberglass fabrics used in wind turbine blades, China Hengshi has been committing itself to research and development ("**R&D**") and production of fiberglass fabrics used in wind turbine blades since its foundation, to meet development demand of the global wind power industry, winning customers and market reputation by the value of its products. While the domestic newly-installed wind power capacity dropped significantly of approximately 16.56% year-on-year in 2017, capitalizing on its leading position in overseas markets and the advantage of "supplying the overseas market with overseas plant" by Hengshi Egypt, the Group achieved a revenue of approximately RMB1,216.6 million, representing a year-on-year decrease of approximately 1.61%. 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%. 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.

As for the R&D innovation and production management, the Group continued to propel R&D on new products and the innovation of process technologies, to further strengthen and enhance the Group's capabilities of innovation and R&D. During the Reporting Period, Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. ("**Hengshi Fiberglass**"), a wholly-owned subsidiary of the Company, was recognized as the "Technology Center for Enterprises in Zhejiang Province" by the Science Technology Department of Zhejiang Province in the PRC, and was jointly recognized as the "Patent Demonstration Enterprise in Zhejiang Province" by the Zhejiang Province Intellectual Property Office in the PRC and Zhejiang Province Economic and Information Commission in the PRC. During the Reporting Period, the Group continued to push its production management, to reinforce its process control, to optimise its quality management system, resulting in a significant enhance of the quality of products. Hengshi Fiberglass was granted the "Mayor's Quality Award" by the People's Government of Jiaxing in the PRC.

The Group continued to adhere to its international development strategy to continuously expand the scale of its overseas production base. In 2017, the Egypt Phase II Expansion Plan of Hengshi Egypt Fiberglass Fabrics S.A.E. ("**Hengshi Egypt**") was successfully completed and was put into operations. The USA Expansion Plan and the plant renovation of Hengshi USA Wind Power Materials Corporation ("**Hengshi USA**") were basically completed. The procurement of related equipment and ancillary facilities, installation and production preparatory works had been commenced in full swing, and the conditions of operation were expected to be fulfilled by the first quarter of 2018. The establishment and putting into operations as well as the expansion of scale of overseas production base, on one hand, could maximize the advantage of "supplying the overseas market with overseas plant" to better serve our customers and to increase customer satisfaction. On the other hand, it would further enhance the brand influence and awareness of the Group in overseas markets, thus further strengthening and increasing the shares of overseas markets.

Looking forward, the speeding up of the development of renewable energy such as wind power has become a common understanding and concerted action across the globe for promoting energy transformation and responding to global climate change. Through proactively seizing the development opportunities from global wind power industry, continuing to strengthen competitive advantages of differentiation, researching and developing more new and trendy products of the industry, actively reinforcing overseas layout and intensifying operational constructions, the Group will create the world's leading manufacturing enterprise of fabrics for wind energy industry and lead the development of the fiberglass fabric manufacturing industry for wind power. Meanwhile, the Group will further expand the market share of fiberglass fabrics in non-wind power application sectors while proactively initiate research, application and market development of new materials such as carbon fiber products in order to nurture new profit growth points to accumulate new motives for the sustainable development of the Group.

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

Yours sincerely,

ZHANG Yuqiang
Chairman of the Board

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 advancement 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 government in the PRC, the wind power market in the PRC 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 the PRC (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 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 approximately 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 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 the PRC 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 to expand 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, Hengshi Fiberglass 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 (西門子一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, Egypt Phase II Expansion Plan has been put into operation in April 2017. As the first overseas production base has formally been 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 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 RMB37.1 million or 14.67%.

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, enhances previous owner's investment intentions and attracts 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", to optimize the quality control structure from the top level of design, to further consolidate the quality control system, to continue the enhancement over the control of production process, and to 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.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS

ZHANG Yuqiang (張毓強), born in 1955, is the chairman of the Board and a non-executive Director. Mr. ZHANG Yuqiang was appointed as a Director in February 2015 and is primarily responsible for formulating the overall development strategies and business plans of the Group. Mr. ZHANG Yuqiang is also the chairman of the board of directors of Zhenshi Holding Group Co., Ltd. ("**Zhenshi**"), the deputy chairman and general manager of China Jushi Co., Ltd. ("**China Jushi**") (stock code: 600176), a company listed on the Shanghai Stock Exchange, and the chairman and the chief executive officer of Jushi Group Co., Ltd. ("**Jushi Group**"). Mr. ZHANG Yuqiang is also the vice chairman of China Building Materials Federation (中國建築材料聯合會) and China Composites Industry Association (中國複合材料工業協會) as well as the vice chairman of China Fiberglass Industry Association. From August 1971 to June 1989, Mr. ZHANG Yuqiang had worked as a staff worker, workshop manager, chief of the production unit, vice director and director of Tongxiang Fiberglass Factory. Mr. ZHANG Yuqiang founded Tongxiang Zhenshi Company Ltd., the predecessor of Zhenshi in June 1989 and has been acting as the chairman ever since. Mr. ZHANG Yuqiang founded Jushi Group Co., Ltd in March 1993 and has been acting as the chairman ever since. Since March 1999, Mr. ZHANG Yuqiang has been acting as the vice chairman, general manager and chief executive officer of China Jushi, previously known as China Fiberglass Co., Ltd. and China Chemical Building Materials Company Ltd. Mr. ZHANG Yuqiang has over 40 years working experience in the fiberglass industry. Under the guidance of Mr. ZHANG Yuqiang, Jushi Group has become one of the largest production entities in the world. Mr. ZHANG Yuqiang obtained the qualification certificate of senior engineer (professor level) conferred by China National Building Material Company Ltd. (中國建築材料集團公司) in December 2008. Mr. ZHANG Yuqiang has received numerous awards and enjoyed special government allowance from the State Council for his outstanding contribution to the building materials industry. In 2009, Mr. ZHANG Yuqiang was voted by Forbes as the best chief executive officer of listed companies in the PRC. Mr. ZHANG Yuqiang participated the MBA courses held by Zhejiang University of Technology and received a programme certificate in December 2002. Mr. ZHANG Yuqiang is the father of Mr. ZHANG Jiankan, another non-executive Director.

ZHANG Jiankan (張健侃), born in 1983, is a non-executive Director. Mr. ZHANG was appointed as the Director in February 2015 and participates in formulating the strategic development plans of the Group. Mr. ZHANG Jiankan has also been the chairman of the board of directors of Hengshi Fiberglass since September 2013 and the vice president of Zhenshi since January 2016. Mr. ZHANG Jiankan served as the assistant to the president of Zhenshi from January 2009 to December 2015. Mr. Zhang Jiankan had acted as project manager at Beijing Hony Future Investment Advisor Ltd. (北京弘毅遠方投資顧問有限公司) from January 2008 to December 2008. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang, another non-executive Director.

TANG Hsin-hua (唐興華) ("**Mr. TANG**"), born in 1953, is a non-executive Director. Mr. TANG was appointed as the Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. TANG is also the chairman of the board of directors of Jushi USA Fiberglass Co., Ltd. From November 2014 to December 2017, Mr. TANG had acted as the supervisor of China Jushi. Mr. TANG has also been a director of Hengshi Fiberglass since January 2004. From 1996 to 2003, Mr. TANG had acted as the chief executive officer of United Suntech Craft Inc. From 1995 to 2010, Mr. TANG had also acted as the chief executive officer of Gibson Enterprises Inc. Mr. TANG obtained a bachelor's degree in urban planning from National Chengchi University (台灣政治大學) in June 1976.

WANG Yuan (王源) ("**Mr. WANG**"), born in 1978, is a non-executive Director. Mr. WANG was appointed as the Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. WANG has also been the chairman of the board of directors of Zhenshi Group's Indonesian branch since 2011 and the vice president of Zhenshi since 2010. From May 2001 to August 2003, Mr. WANG had worked as the project manager at Beijing Hollyhigh International Capital Consulting Co., Ltd.. From September 2003 to August 2007, Mr. WANG had acted as deputy minister in the strategic investment department of Jushi Group. From 2007 to 2009, Mr. WANG had acted as the assistant to the president of Zhenshi. Mr. WANG obtained a bachelor's degree in economics from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in Nanjing, the PRC, in June 2000 and a MBA degree from University of International Business and Economics (中國北京對外經濟貿易大學), in Beijing, the PRC, in June 2007.

EXECUTIVE DIRECTORS

ZHOU Tingcai (周廷才) ("**Mr. ZHOU**"), born in 1966, is an executive Director and the general manager. Mr. ZHOU was appointed as the Director in May 2015 and the general manager in November 2014 and is primarily responsible for overall operations of the Group. Mr. ZHOU joined the Group in November 2014 and has been acting as the general manager ever since. From September 1989 to October 1997, Mr. ZHOU had worked as the workshop manager, project manager and project engineer of Lanzhou Plate Glass Factory (蘭州平板玻璃廠). From October 1997 to February 2008, Mr. ZHOU had received training and held different positions in various departments of Saint-Gobain China. From February 2008 to July 2008, Mr. ZHOU had acted as the deputy general manager of Jushi Group Chengdu Branch (巨石集團成都公司). From August 2008 to November 2014, Mr. ZHOU had acted as deputy general manager and general manager of Kunshan Huafeng Composite Material Co., Ltd. (昆山華風複合材料有限公司). Mr. ZHOU joined Kunshan Huafeng Wind-Power Engineering Co., Ltd. (昆山華風風電科技有限公司) as deputy general manager and general manager responsible for developing and managing industrial chain from April 2010 to November 2014. Mr. ZHOU obtained a bachelor's degree in material engineering from Wuhan University of Technology (武漢工業大學) in Wuhan, the PRC, in June 1989.

HUANG Junjun (黃鈞筠) ("**Ms. HUANG**"), born in 1980, is an executive Director and the deputy general manager. Ms. HUANG was appointed as the Director in May 2015. She had been a deputy manager of Hengshi Fiberglass since 2008 with primary responsibilities in sales and foreign trade, and has become a deputy general manager since January 2014. From July 2003 to October 2004, Ms. HUANG had worked as a president office staff of Jushi Group. From 2004 to 2006, Ms. HUANG had been an executive in the general manager's office of Jucheng Real Estate Development Co., Ltd. (巨成置業有限公司). From March 2008 to August 2008, Ms. HUANG had worked as a marketing specialist in Jushi Group. From 2010 to 2013, in addition to her responsibilities at Hengshi Fiberglass, Ms. HUANG had also been the assistant to the general manager in Zhejiang Meishi New Materials Company Ltd. (浙江美石新材料有限公司). She obtained a bachelor's degree in finance from Hubei University (湖北大學) in Wuhan, the PRC, in June 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

XIE Guoping (謝國平) ("**Mr. XIE**"), born in 1982, is an independent non-executive Director. Mr. XIE was appointed as the Director in May 2017 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. XIE is a senior financial media practitioner. Mr. XIE has been the assistant to the director of Economic Information & Agency in Hong Kong since January 2017. Mr. XIE has been engaged as a part time lecturer for postgraduate students in the College of Media and International Culture of Zhejiang University in Hangzhou, the PRC since February 2016. Mr. XIE has been the director of Zhejiang Office of Hong Kong Commercial Daily since January 2012. Mr. XIE is a committee member of Zhejiang Youth Federation. In March 2009, Mr. XIE was received by Mr. Wen Jiabao, the then Premier of the State Council, in Beijing, the PRC. To date, Mr. XIE is still studying in the Victoria University in Switzerland (瑞士維多利亞大學) for a doctoral degree in business administration.

ZHAO Jun (趙軍) ("**Mr. ZHAO**"), born in 1954, is an independent non-executive Director. Mr. ZHAO was appointed as the Director in March 2018 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. ZHAO is an engineer. Mr. ZHAO has been the senior general manager of the development strategy department in Jushi Group since 2001 and the supervisor of China Jushi since November 2014. Mr. ZHAO joined the Beijing Fiber Reinforced Plastics Design and Research Institute in 1970 and acted as Director of Housing and Construction Materials Department in the State Building and Construction Bureau Information Institute in 1983. Mr. ZHAO joined China Building Waterproofing Materials Company in 1995 and has successively served as Deputy Secretary General of China Building Waterproofing Materials Association, the member of Expert Committee of China Building Waterproofing Materials Association and the member of National Chemical Building Materials Expert Committee. The research of modified asphalt waterproof material conducted by Mr. ZHAO won the third prize of scientific and technological progress of State Building Materials Bureau. Mr. Zhao graduated from Xi'an Foreign Studies University in Xi'an, the PRC, in 1979.

LOU Hetong (婁賀統) ("**Mr. LOU**"), born in 1962, is an independent non-executive Director. Mr. LOU was appointed as the Director in March 2018 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. LOU is an associate professor at Fudan University and a non-practicing member of the Chinese Institute of Certified Public Accountants. Since 1984, Mr. LOU has been teaching in Accounting Department of Fudan University and now serves as executive director of Master of Professional Accounting Program of Fudan University. Mr. LOU has been an external director of Shanghai Lilong New Media Co., Ltd. since 2013, an independent director of Shanghai Longyun Advertising Communication Co., Ltd. (stock code: 603729), a company listed on the Shanghai Stock Exchange, since November 2014, an independent director of Suzhou Neway Valve Co., Ltd. (stock code: 603699), a company listed on the Shanghai Stock Exchange, since January 2016, an independent director of WuXi AppTec Co. Ltd. since 2017 and an independent director of Dalian Chenxin Network Technology Co., Ltd. (previously known as Dalian Yi Qiao Sea Cucumber Co., Ltd., stock code: 002447), a company listed on the Shenzhen Stock Exchange, from October 2016 to November 2017. Mr. LOU obtained a bachelor's degree in accounting from Shanghai University of Finance and Economics in Shanghai, the PRC in July 1984 and a doctoral degree in accounting from Fudan University in Shanghai, the PRC in May 2007.

SENIOR MANAGEMENT

PAN Chunhong (潘春紅) ("**Mr. PAN**"), born in 1973, is the executive general manager. Mr. PAN was appointed as the executive general manager in January 2016 and is responsible for production and quality management of the Group. From July 1999 to January 2001, Mr. PAN had worked as a section member of the corporate management department in Jushi Group. From January 2001 to December 2004, Mr. PAN had worked as a section chief of the management and control department in Jushi Group. From January 2005 to December 2006, Mr. PAN had worked as a deputy minister of quality control department in Jushi Group. From January 2007 to April 2008, Mr. PAN had worked as a vice director of secondary branch factory of the Jushi Group. From April 2008 to December 2015, Mr. PAN had worked as the factory manager of the secondary branch factory of the Jushi Group. Mr. PAN obtained a degree in securities investment and management from Zhejiang Economic College (浙江經濟高等專科學校), in Jiaxing, the PRC, in July 1999. In July 2002, Mr. PAN obtained the Certificate of a master degree in business administration from Zhejiang University of Technology (浙江工業大學), in Hangzhou, the PRC.

RAO Chaofu (饒朝富) ("**Mr. RAO**"), born in 1974, is the chief financial officer of the Group. Mr. RAO was appointed as the chief financial officer of the Company in May 2015 and is responsible for financial affairs of the Group. Mr. RAO has been the vice minister of the accounting department of Zhenshi and, among other things, has been responsible for overseeing financial affairs relating to our Group since 2010. From 1997 to 2006, Mr. RAO had worked as an accountant and the chief financial officer of Tongxiang Gaoke Electricity Co., Ltd., a former subsidiary of Zhenshi (振石前附屬公司桐鄉高科電子有限公司). From 2006 to 2008, Mr. RAO had acted as the chief financial officer of Shenzhen Yuanshi Rubber Electricity Co., Ltd., a former subsidiary of Zhenshi (振石前附屬公司深圳源石塑料電子有限公司). From 2008 to 2010, Mr. RAO had acted as the group accountant of Zhenshi. Mr. RAO obtained a bachelor degree in accounting from Hangzhou Dianzi Industrial College (杭州電子工業學院), in Hangzhou, the PRC, in July 1997.

JOINT COMPANY SECRETARIES

YIN Hang (尹航) ("**Mr. YIN**"), was appointed as a joint company secretary of the Company on 7 May 2015. Mr. YIN has also been the head of the development strategy department of Zhenshi since January 2018. From January 2014 to December 2017, Mr. YIN had acted as the deputy director of the development strategy department in Zhenshi. From March 2009 to December 2013, Mr. YIN had acted as the secretary to the chairman of Jushi Group. From January 2011 to December 2012, Mr. YIN had also acted as an investment strategy commissioner of Jushi Group. Mr. YIN obtained a bachelor degree in marketing from Washington State University, in Washington, United States, in July 2008.

LUI Chi Ho (呂志豪) ("**Mr. LUI**"), was appointed as a joint company secretary of the Company on 26 April 2017. Mr. LUI is currently a partner of Stevenson, Wong & Co., a law firm in Hong Kong. Mr. LUI has been admitted as a solicitor to the High Court of Hong Kong since 1999. He was also admitted as a solicitor to the Supreme Court of England and Wales in 2004. Mr. LUI is a member of the Chartered Institute of Arbitrators and is an accredited mediator of Hong Kong International Arbitration Centre and the Law Society of Hong Kong. Mr. LUI is also a China Appointed Attesting Officer, a member of the Solicitors Disciplinary Tribunal Panel and chairman to Appeal Tribunal Panel (Buildings). Mr. LUI is served by a team of staff from Stevenson, Wong &Co..

Directors' Report

The Board is pleased to present the director's report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

An analysis on the revenue of the Group during the year is set out in note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 79 of this Annual Report.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2017 are set out in note 39 to the consolidated financial statements.

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 of the Company (the "**Shareholders**") at the forthcoming annual general meeting to be held on Friday, 11 May 2018 (the "**AGM**") 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

In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from 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 accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30 April 2018.

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 accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 16 May 2018.

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2017 and a discussion on the Group's future business development are provided in the Management Discussion and Analysis on pages 8 to 20 of this Annual Report. An analysis of the Group's performance during the Reporting Period using financial key performance indicators is provided in the Five-Year Financial and Operating Highlights on page 5 of this Annual Report.

MAJOR RISKS AND UNCERTAINTIES

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was established in the Cayman Islands with its principal business conducted in regions such as the PRC, Egypt and United States and the shares of the Company (the "**Shares**") are listed on the The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Therefore, our establishment and operation are subject to relevant laws in the Cayman Islands, Egypt, the PRC, United States and Hong Kong. For the year ended 31 December 2017 and up to the date of this Annual Report, we complied with relevant laws and regulations in Cayman Islands, Egypt, the PRC, United States and Hong Kong. For the compliance with laws and regulations and performance of the Company, please refer to the section headed "Environmental, Social and Governance Report" in this Annual Report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

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

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

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

FINANCIAL SUMMARY/FINANCIAL REVIEW

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

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

The net proceeds from the 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**

PRINCIPAL CUSTOMERS AND SUPPLIERS

The transaction amount of the Company for the top five customers for the year 2017 accounted for 50.48% of the operating revenue of the Company for the year 2017, among which, the transaction amount of the single largest customer accounted for 13.48% of the operating revenue of the Company for the year 2017.

The transaction amount of the top five suppliers of the Company for the year 2017 accounted for 94.10% of the procure amount of the Company for the year 2017. The transaction amount of the largest supplier of the Company accounted for 80.21% of the procurement amount of the Company for the year 2017.

China Jushi and its subsidiaries ("**China Jushi Group**") and Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd. ("**Yushi International**") are two of the top five suppliers of the Company. As at 31 December 2017, Zhenshi held 15.59% equity interests in China Jushi and Mr. Zhang Yuqiang, the chairman of the Board, non-executive Director and substantial Shareholder, held 70.28% equity interests in Zhenshi. Mr. Zhang Yuqiang was the vice chairman and general manager of China Jushi. Mr. Zhang Jiankan, the non-executive Director, indirectly held 25.23% equity interests in Zhenshi through Tongxiang Wushi Trading Company Limited. In addition, Mr. Tang Hsin-hua, the non-executive Director, was a supervisor of China Jushi and held 0.61% equity interests in China Jushi.

Yushi International is a subsidiary of Zhenshi.

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Company and the Group as of the year ended 31 December 2017 are set out in note 16 to the consolidated financial statements of this Annual Report.

SHARE CAPITAL

Details of changes in the share capital of the Company during the Year are set out in note 31 to the consolidated financial statements of this Annual Report. For the year ended 31 December 2017, there was no issuance of new Shares or bonds by the Company.

RESERVE AND DISTRIBUTABLE RESERVE

Details of changes in the reserve of the Company and the Group for the year 2017 are set out in note 40 to the consolidated financial statements and the consolidated statement of changes in equity on pages 82 to 84, respectively, among which, the information on reserve distributable to Shareholders in 2017 is set out in note 40 to the consolidated financial statements.

BANK BORROWINGS

Details of bank borrowings of the Company and the Group as at 31 December 2017 are set out in note 29 to the consolidated financial statements.

DIRECTORS

For the year ended 31 December 2017 and up to the date of this Annual Report, the Board comprised the following Directors:

Non-executive Directors

Mr. Zhang Yuqiang
Mr. Zhang Jiankan
Mr. Tang Hsin-hua
Mr. Wang Yuan

Executive Directors

Mr. Zhou Tingcai
Ms. Huang Junjun

Independent non-executive Directors

Mr. Fang Xianbai (resigned on 21 May 2017)
Mr. Xie Guoping (appointed on 22 May 2017)
Mr. Pan Fei (resigned on 6 March 2018)
Mr. Chen Zhijie (resigned on 6 March 2018)
Mr. Lou Hetong (appointed on 6 March 2018)
Mr. Zhao Jun (appointed on 6 March 2018)

The biographical details of the Directors and senior management are set out in the section headed "Directors and Senior Management Profile" on pages 21 to 24 of this Annual Report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation from each of its independent non-executive Directors for their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and the Company considers that each of such Directors is independent throughout the year ended 31 December 2017.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

Details of the remuneration of Directors and five individuals of the Group with highest emoluments as at the year ended 31 December 2017 are set out in notes 11 and 12 to the consolidated financial statements.

SERVICE CONTRACTS AND APPOINTMENT LETTERS OF DIRECTORS

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

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. Their appointment commenced on the date of signing of the appointment letter for a term which may be extended for such period as the Company and the independent non-executive Director may agree and may be terminated by either party by giving at least one month's written notice. Every Director is subject to retirement by rotation and re-election at the annual general meetings at least once every three years in accordance with the memorandum and articles of association of the Company (the "**Articles of Association**").

None of the Directors has entered into any unexpired service contract with any members of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SUBSTANTIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this Annual Report, none of the Directors directly or indirectly held any material interests in other substantial transactions, arrangements or contracts of the Company or any of its subsidiaries as at 31 December 2017 or any time during the year. The Company did not provide any loans to any Directors or senior management of the Company during the year.

CONTROLLING SHAREHOLDERS' INTERESTS IN SUBSTANTIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this Annual Report, as far as the Directors are aware, none of the controlling shareholders of the Company had a material interest, either directly or indirectly, in any other substantial transaction, arrangement or contract of the Company or any of its subsidiaries as at 31 December 2017 or any time during the year.

COMPLIANCE OF NON-COMPETITION AGREEMENT

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

Independent non-executive Directors have reviewed and confirmed that the Controlling Shareholder complied with the non-competition agreement and performed the non-competition agreement in accordance with its terms during the year ended 31 December 2017 and up to the date of this Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2017, none of the Directors or their close associates held any interests in any business which directly or indirectly competes or may compete with the business of the Group.

RETIREMENT AND EMPLOYEES BENEFIT SCHEME

Details of retirement and employees benefit scheme of the Company are set out in note 36 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

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

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

As at 31 December 2017, interests or short positions held by Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance, Chapter 571 of the laws of Hong Kong (the "**SFO**")) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which were taken or deemed to have taken under such provisions of SFO); or (b) recorded in the register maintained pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

(i) Interests in the Company

Directors	Nature of Interests	Number of Shares held[4]	Approximate percentage of shareholding[5]
Zhang Yuqiang[1]	Interest of a controlled corporation	329,602,500 (L)	32.96%
Zhang Jiankan[2]	Interest of a controlled corporation	131,015,500 (L)	13.10%
Tang Hsin-hua[3]	Interest of a controlled corporation	225,000,000 (L)	22.50%

Notes:

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

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

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

(4) Letter (L) denotes long position in such securities.

(5) As at 31 December 2017, the number of issued Shares amounted to 1,000,000,000 Shares.

(ii) Interest in associated corporations

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

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) recorded in the register maintained pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2017, so far as the Directors are aware, the following persons (not being a Director nor chief executive of the Company) or corporations who/which had or were deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

Name	Nature of Interests	Number of Shares(5)	Approximate percentage of shareholding(6)
Mr. Fang Yan Zau Alexander(1)	Interest of a controlled corporation	75,000,000 (L)	7.50%
Huachen Investment Limited(2)	Beneficial owner	329,602,500 (L)	32.96%
Huakai Investment Limited(3)	Beneficial owner	131,015,500 (L)	13.10%
Soar City Investments Limited(4)	Interest of a controlled corporation	225,000,000 (L)	22.50%
Trade Power Investments Limited(4)	Beneficial owner	225,000,000 (L)	22.50%
Top Way Alliance Limited(1)	Interest of a controlled corporation	75,000,000 (L)	7.50%
Joyfar Limited(1)	Beneficial owner	75,000,000 (L)	7.50%

Notes:

(1) Top Way Alliance Limited directly held all the issued share capital of Joyfar Limited, and was deemed to be interested in the 75,000,000 Shares in the Company held by Joyfar Limited. Mr. Fang Yan Zau Alexander indirectly held all the issued share capital of Joyfar Limited through all direct interests held by him in Top Way Alliance Limited, and Mr. Fang Yan Zau Alexander was deemed to be interested in the 75,000,000 Shares in the Company held by Joyfar Limited under the SFO.

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

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

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

(5) Letter (L) denotes long position in such securities.

(6) As at 31 December 2017, the number of issued Shares of the Company amounted to 1,000,000,000 Shares.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any persons (not being a Director nor the chief executive of the Company) or corporations who/which had or were deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

REPURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2017.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2017, details of certain transactions entered into between the Company and parties deemed as "connected parties" in accordance with applicable accounting principles are disclosed in note 38 to the consolidated financial statements in this Annual Report. According to the requirements of Rule 14A of the Listing Rules, one of the transactions constituted a connected transaction and two of the transactions constituted continuing connected transactions under the Listing Rules, which shall comply with the requirements of the Listing Rules and be disclosed in this Annual Report. Details of these connected transaction and continuing connected transactions are set out as follows:

CONNECTED TRANSACTIONS

(i) Acquisition of a property

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

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

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

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

For the year ended 31 December 2017, the Group paid a consideration of nil for the Property, and the transaction has not yet been completed.

CONTINUING CONNECTED TRANSACTIONS

(i) Purchase of logistics services

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

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

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

For the year ended 31 December 2017, the total amount paid or payable to Yushi International for logistics services by the Company was approximately RMB53.9 million, which did not exceed the annual cap of RMB72.2 million of the transaction.

(ii) Purchase of Export Agent Services

The Company and Shanghai Tianshi entered into a framework agreement dated 2 December 2015 ("**Tianshi Framework Agreement**"), pursuant to which, Shanghai Tianshi agreed to provide to the Company export agent services, including services such as freight booking and customs clearance, and the export of its fiberglass fabric products to its overseas customers. Tianshi Framework Agreement is effective from the listing date to 31 December 2017.

Shanghai Tianshi, of which Mr. Zhang Jiankan is interested in 70% of the registered capital, is an associate of Mr. Zhang Jiankan, who is a non-executive Director, and hence a connected person of the Company. Tianshi Framework Agreement constitutes a continuing connected transaction for the Company.

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

The total amount paid or payable to Shanghai Tianshi for export agency services by the Company for the year ended 31 December 2017 was approximately RMB20.1 million, which did not exceed the annual cap of the transaction of RMB20.3 million.

In accordance with relevant work conducted, our auditors have reported to the Audit Committee and confirmed that for the year ended 31 December 2017, the continuing connected transactions disclosed above:

(a) have been approved by the Board;

(b) have complied with the pricing policies of the Company in all material aspects;

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

(d) have not exceeded the annual cap of relevant continuing connected transactions.

Independent non-executive Directors have reviewed the continuing connected transactions disclosed above, and confirmed that for the year ended 31 December 2017, the transactions:

(a) have been entered into in the ordinary and usual course of business of the Company;

(b) have been entered into in accordance with normal commercial terms or better than those from the services obtained or provided by or received from independent third parties by the Company;

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

(d) have not exceeded the annual cap of relevant continuing connected transactions.

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

Saved as disclosed above, the related party transactions disclosed in note 38 to financial statements of this Annual Report were the connected transactions exempted from the requirements of reporting, announcements and shareholders' approval under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

As at 31 December 2017, Zhenshi (Mr. Zhang Yuqiang owned as to 70.28% of equity interests of its registered capital) held 15.59% equity interests in China Jushi. Our chairman of the Board, non-executive Director and ultimate Controlling Shareholder, Mr. Zhang Yuqiang, is also the deputy general manager and general manager of China Jushi. In addition, as at 31 December 2017, one director and one senior management member of China Jushi owned, in aggregate, less than 0.42% equity interest in our Company. Save as disclosed above, none of China Jushi's directors, supervisors and senior management members was a Director or senior management member of the Company, nor held any equity interest in the Company, pursuant to which, according to the undertakings made by the Company in the Prospectus upon the listing of the Company, this Annual Report will continue to announce the transactions with China Jushi Group as follows:

As disclosed in "Prospectus", "2015 annual report" and "2016 annual report" issued by the Company on 8 December 2015, 14 April 2016 and 6 April 2017, respectively, and given the long-term stable cooperative and complementary relationship between the Group and China Jushi Group, the long-term and stable quality and the good reputation of the raw materials such as fiberglass supplied by China Jushi Group and the cost advantage obtained by the Group in purchasing raw materials from China Jushi Group, the Company has entered into a strategic cooperation agreement with Jushi Group, a wholly owned subsidiary of China Jushi on 1 January 2015 to guarantee the long-term and stable supply of fiberglass by China Jushi Group to the Company. The term of the agreement is three years from 1 January 2015 to 31 December 2017. The Company has renewed the strategic cooperation agreement with Jushi Group on 29 June 2017, and the term of the agreement is three years from 1 January 2018 to 31 December 2020.

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

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

For the year ended 31 December 2017, the purchase of fiberglass from China Jushi Group by the Group amounted to approximately RMB542.0 million in total, and the total amount of the finished goods sold by the Group to China Jushi Group amounted to approximately RMB11.8 million.

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

(a) have been approved by the Board;

(b) have been entered into in accordance with terms which are fair and reasonable;

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

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

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

In accordance with relevant work conducted, our auditors have reported and confirmed to the Board that, for the year ended 31 December 2017, the transactions entered into by the Group and China Jushi and its respective subsidiaries with an annual transaction amount, in aggregated, of HK$1 million:

(a) have been approved by the Board;

(b) have complied with the pricing policies of the Group in all material aspects; and

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

EQUITY-LINKED AGREEMENT

No equity-linked agreements were entered into by the Company during the year ended 31 December 2017.

TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders by reason of their holding of the Shares.

If the Shareholders are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or exercising any rights in relation to, the Shares, they are advised to consult a professional in taxation.

MANAGEMENT CONTRACT

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

PERMITTED INDEMNITY PROVISION

Pursuant to article 182 of the Articles of Association, if any Director, in such capacity, is exposed to any legal action, litigation or proceeding (whether civil, criminal, administrative or investigative) in which judgment is given in his favor, the Company shall indemnify him/her for all of the liabilities, and losses and expenses (including attorney's fees) reasonably incurred and assumed by him/her from the Company's assets within the fullest extent as permitted by the existing or possibly subsequently amended applicable laws, and protect him/her from any damages.

DONATION

Save for the disclosure in the section headed "Environmental, Social and Governance Report" in this Annual Report, the Company did not contribute charitable and other donations during the year ended 31 December 2017.

PUBLIC FLOAT

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

MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2017, the Company has not been involved in any material litigation or arbitration, and as far as the Directors are aware, no litigations or claims of material importance is pending or threatened against the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee has also reviewed the financial statements, annual results announcement and the Annual Report of the Company for the year ended 31 December 2017.

MODEL CODE REGARDING SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the code of conduct regarding transactions conducted by Directors. After making specific enquires to all Directors, all of them have confirmed that they have complied with all of the requirements set out in the Model Code for the year ended 31 December 2017.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. For the year ended 31 December 2017, the Company has complied with the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Details of the Corporate Governance Code adopted by the Company are set out in the "Corporate Governance Report" on pages 61 to 74 of this Annual Report.

AUDITORS

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

EVENTS AFTER THE REPORTING PERIOD

Continuing connected transactions

On 29 December 2017 (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 "**2018 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 "**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.

By order of the Board
Zhang Yuqiang
Chairman of the Board

Hong Kong: 23 March 2018

Environmental, Social and Governance Report

It is impossible for an enterprise to develop without people, just as people cannot exist without the environment. As a manufacturing enterprise of fiberglass fabrics at the front-end of wind power industry chain, the Group has always taken "conservation and improvement of the living environment, development of renewable energy undertakings and creation of maximum value for its employees, Shareholders, clients and stakeholders" as its mission, and has been committed to becoming "a global leader in fiberglass fabrics used in wind turbine blades".

We regard suppliers, partners, governments and communities as our family and friends, complementing with each other for mutual development. We endeavor to give back to society by creating a living environment featuring conservation of resources and picturesque scenery for society, the public and our next generation as we develop.

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

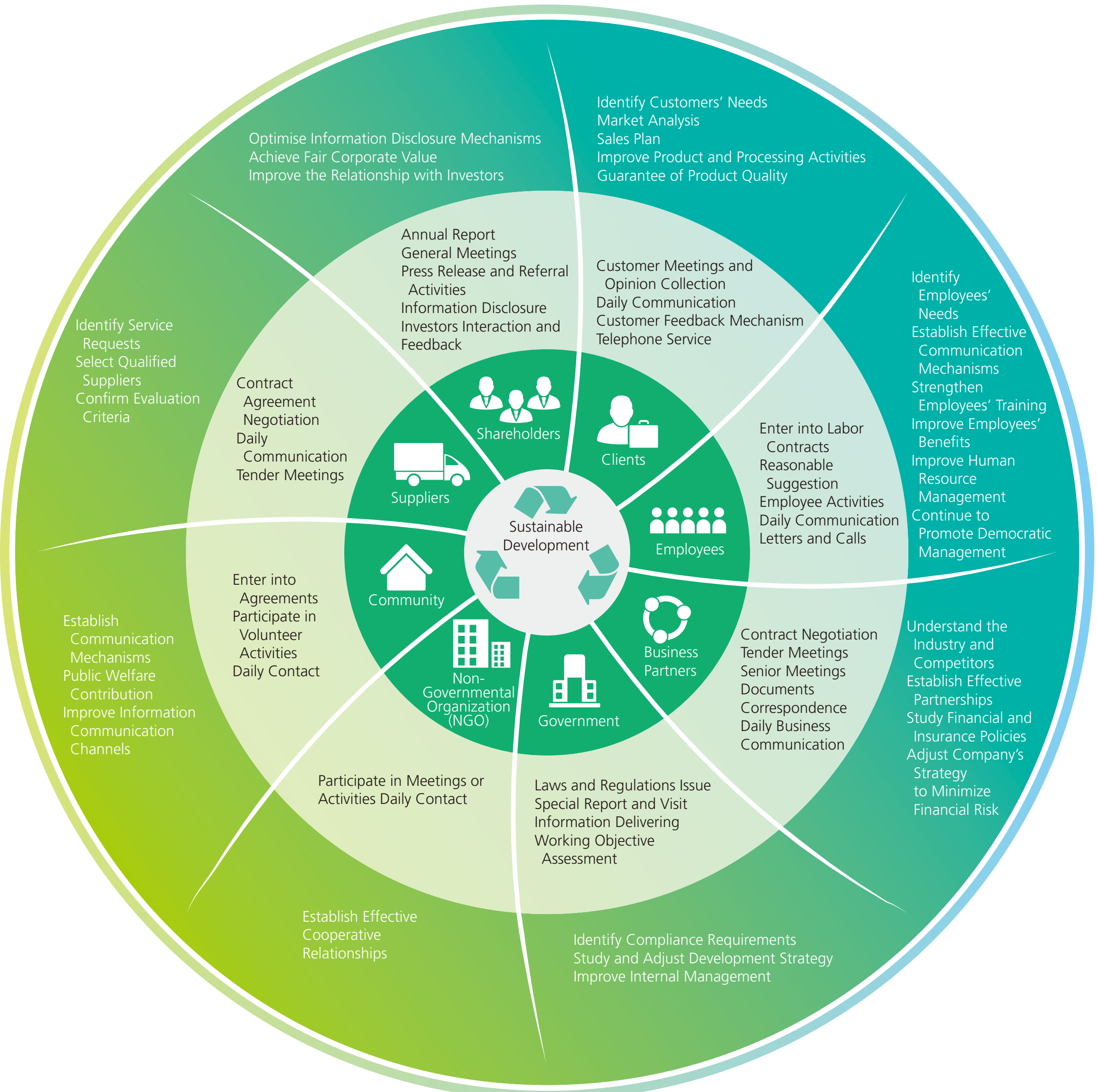
This report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide as set out in Appendix 27 to the Listing Rules of the Stock Exchange. It is the second environmental, social and governance report published by the Group to the society. For the performance of governance,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

STAKEHOLDERS

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

We adhere to the principle of "integrity, equality and interaction", value the communication and exchange with stakeholders, and actively implement and improve the open and transparent communication and participation mechanism among stakeholders. We strengthen the communication and disclosure of information through various channels, such as the Company's website, publications, press conferences, investor receptions, telephones and mails to encourage stakeholders to participate in the fulfillment of the Company's social responsibilities, with a view to promote the coordinated development of the Company's development, environmental protection and social advancement.

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



A. ENVIRONMENTAL

The Group always sticks to the "Four Not Principles", they are not at the expense of environmental pollution, not at the expense of endangering employees' safety and health, not at the expense of stepping beyond the laws and regulations, and not at the expense of wasting resources and damaging the ecology. In strict compliance with the various local laws and regulations (Including but not limited to the "Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)", "Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》)", "Law of the PRC on Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》)" and "Law of the PRC on Prevention of Environmental Pollution by Solid Waste (《中華人民共和國固體廢棄物污染防治法》") where its production and operation locate, the Group insists on fully promoting the green growth and green development of the enterprise by adhering to the concept of green business, continuously improving the management system of environmental protection and energy saving and emission reducing as well as increasing its investment in energy saving and environmental protection.

A1. EMISSIONS

Impacts on water quality and measures to reduce the impacts

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

Impacts on air and measures to reduce the impacts

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

The Group provides its employees with the convenience of official business vehicles for short-distance business trips. During the Reporting Period, the Group's emission data for official business vehicles are as follows:

Official Business Vehicles Emission Data

	2017	2016
Mileage (km)	**238,164.0**	134,945.0
Gasoline consumption (l)	**26,159.8**	20,241.8
Nitrogen oxide emissions[1] (kg)	**210.8**	119.4
Sulfur dioxide emissions[1] (kg)	**0.4**	0.3
Particulates emissions[2] (kg)	**20.2**	11.4

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

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

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

Greenhouse Gas Emissions[1] Data

	2017	2016
Total greenhouse gas[2] emissions (Scope 1 and 2) (ton)	**6,644.6**	5,758.6
Total greenhouse gas emissions per square meter of gross floor area (Scope 1 and 2) (ton/sq m)	**0.04**	0.04
Total greenhouse gas emissions per employee (Scope 1, 2 and 3) (ton/employee)	**5.4**	4.7
Total greenhouse gas emissions (Scope 1, 2 and 3) (ton)	**6,775.0**	5,913.3
Total greenhouse gas emissions per square meter of gross floor area (Scope 1, 2 and 3) (ton/sq m)	**0.04**	0.04
Total greenhouse gas emissions per employee (Scope 1, 2 and 3) (ton/employee)	**5.5**	4.8
Direct emissions[3] (Scope 1) (ton)	**70.8**	54.8
Gasoline	**70.8**	54.8
Indirect emissions (Scope 2) (ton)	**6,573.7**	5,703.8
Electricity	**10,059.4**	8,825.1
Greenhouse gas emission reduction from photovoltaic power generation[4]	**3,485.6**	3,121.3
Indirect emission (Scope 3) (ton)	**130.5**	154.7
Business trip by plane[5]	**64.3**	79.0
Paper consumption[6] (ton)	**8.4**	9.4
Greenhouse gas emissions from power consumption in tap water plant for processing tap water (ton)	**26.4**	29.7
Greenhouse gas emission from power consumption in wastewater treatment plant for processing wastewater from the Group (ton)	**31.4**	36.6

1. Hengshi USA was still under construction in 2017, related data in Hengshi USA has not been included in the scope of this study;

2. Substantially all of the Group's greenhouse gas emissions are from indirect emissions, in which the greenhouse gas emitted from electricity (converted from fossil fuel combustion) in the production and operation takes up the larger proportion;

3. All of them are gasoline consumed for official business vehicles of the Group, and all the transport facilities used in the Group's plants are electric-driven equipment; in addition, as the Group's employee canteen consumed a small amount of natural gas as fuel, its greenhouse gas emission is relatively low. Thus, it is excluded from the statistics;

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

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

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

The impact of solid waste and measures to reduce the impact

The solid wastes derived from the production and operation of the Group mainly comprise of wasted silk, scrap and staff domestic waste. Among which, wasted silk and scrap are collectively collected by the Group for reuse or selling to third parties for reuse. While staff domestic waste is collectively collected by the Group and regularly cleaned and transported and collectively disposed by the municipal sanitation department. During the Reporting Period, the Group had generated a total of 6,893.9 tons wasted silk and scrap, all of which were sold to third parties for reuse. Since the Group's solid wastes can be re-used or collectively collected for effective disposal, the impact on the surrounding environment is insignificant. No substantial hazardous waste was produced by the Group during the Reporting Period.

A2. USAGE OF RESOURCES[1]

Energy consumption

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

Energy Consumption Data

	2017	2016
Total energy consumption (ton standard coal)	**1,050.6**	908.9
Total energy consumption per square meter of floor area (ton standard coal/sq m)	**0.006**	0.006
Total energy consumption per employee (ton standard coal/employee)	**0.9**	0.9
Direct energy consumption (ton standard coal)	**27.9**	21.6
Gasoline (Litre)	**26,159.8**	20,241.6
Indirect emissions (ton standard coal)	**1,022.7**	887.4
Total electricity consumption (kWh)	**12,733,356.0**	11,170,998.6
Photovoltaic systems (kWh)	**4,412,160.0**	3,951,000.0
Energy consumption expenditure (RMB0'000)	**640.5**	669.4

1. The data on the usage of resources herein excluded that of Hengshi USA in the scope of this study;

2. The density of gasoline was calculated at 0.725 kg/Litre.

Water consumption

In addition to domestic and greenbelt water consumption, the Group consumes certain amount of water as the production workshops which need to use atomizing humidifier to maintain the humidity of the air. The water consumed is derived from the tap water supplied by the local municipal, the costs of water consumption accounted for an insignificant proportion in the product costs of the Group. During the Reporting Period, the data of the Group's water consumption is as follows:

Water Consumption Data

	2017	2016
Total water consumption (ton)	**111,471.0**	125,178.0
Total water consumption per square meter of floor area (ton)	**0.7**	0.9
Total energy consumption per employee (ton/employee)	**90.3**	121.7
Total water consumption expenditure (RMB0'000)	**59.9**	51.4

Package materials

To facilitate transportation and storage, the finished goods of the Group require appropriate packaging. The main packaging materials are tray, paper strew, paper box and plastic. Since the size, type and category of packaging used are based on the specification and size of the product, and the packaging is all small and scattered items, and therefore statistics for packaging weight cannot be compiled. During the Reporting Period, the data of packaging material consumption was as follow:

Package Materials Data

	2017	2016
Total amount of package materials for finished goods (RMB million)	**41.8**	37.1
Amount of tray (RMB million)	**14.7**	13.9
Amount of paper strew (RMB million)	**7.8**	5.9
Amount of paper box (RMB million)	**11.1**	8.1
Amount of other package materials (RMB million)	**8.2**	9.2

A3. ENVIRONMENTAL AND NATURAL RESOURCES

Investments in and measures for environmental protection and energy facilities

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

- Energy-conservation transformation of workshop lighting, toilet lights, office lights to reduce electricity consumption effectively;

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

- Introduction of photovoltaic power generation system, installation of solar panels on the ceiling of the workshop to generate photovoltaic power amounted to 4,412,160.00 kWh in 2017 directly available for use in production and reduce energy consumption;

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

- the Group reduces energy consumption by actively using new technologies and skills, conducts continuous renovation and upgrade of the equipment, to improve the production efficiency in a practical way and reduce the energy consumption by the Group;

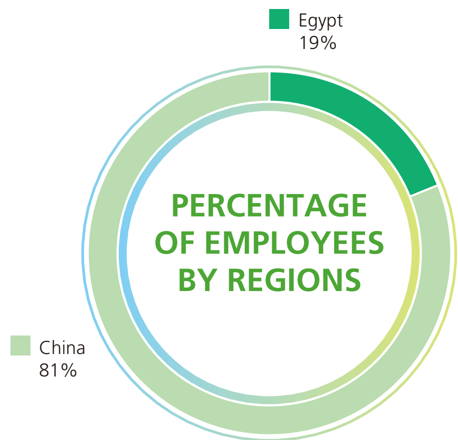
- Enhance publicity and training to promote the concept of energy saving through various channels such as the Company's website, slogans, warnings, and billboard. Through putting up slogans such as "Save Electricity" next to the switch of lights and air-conditioner in the meeting room and offices and "Save Water" next to the taps, to remind employees to save every drop of water and cultivate good habits of energy saving.

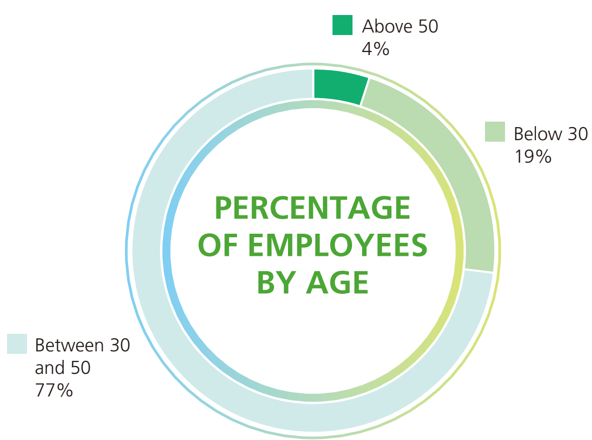
B. SOCIAL

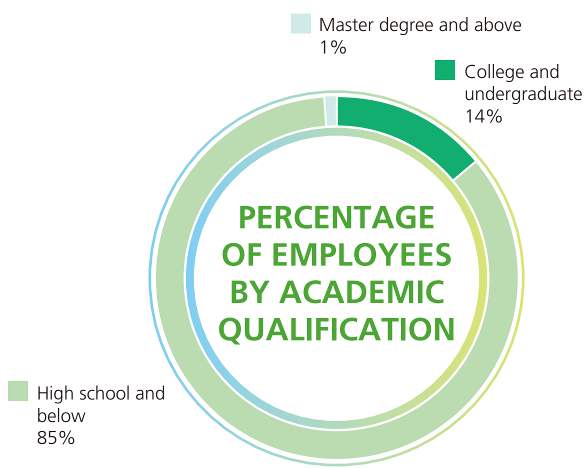
B1. EMPLOYMENT

Employees are the cornerstone and impetus of enterprise's production and development. The Group always strives to create a harmonious, comfortable and safe working environment by respecting employees' wishes, clarifying employment forms, advocating free choice of occupation, safeguarding employees' legal rights and interests and treating employees from different countries, races and genders equally. The Group provides professional and efficient training, competitive salaries and a broad career development space for employees to make them realizing their personal value and grow along with the enterprise.

As at 31 December 2017, the Group has 1,235 (2016: 1,029) employees, including personnel of production, R&D and management team. Among them, female employees account for 38%, giving full play to their characteristics regarding carefulness and manual dexterity during glass fabrics knitting. Employees have served approximately 4.68 years on average, with 77% of employees ranging from aged 31 to aged 50. There were no non-compliance issues noted regarding our labour practices during the Reporting Period.







REMUNERATION

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

WELFARE

Comprehensive insurance plan

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

Holiday subsidies and allowances

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

Dormitory service

The Group provides employees with staff apartments of three-bedrooms with one dining room, and provides housing subsidies to create a comfortable living and working environment.

Catering services

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

Tours by labor union

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

Provision of interest-free loans for home buying

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

During the Reporting Period, a total of 3 employees have received the Group's funding support for home buying, and the amount of funding support was approximately RMB1.8 million.

Family activities on 1 June

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

Family activities on 1 June

B2. OCCUPATIONAL HEALTH AND SAFETY

There are no hazardous chemicals or emissions of toxic and hazardous substances involved in the production process of the Group. Most of production sessions rely on machines and equipment to be completed in the production process, which may bring physical injury occasionally due to improper operation of the machine equipment.

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

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

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

During the Reporting Period, the number of the reportable case of work-related injury of our Group was 3, and work-related injury rate per 1,000 workers was approximately 2.4%. During the Reporting Period, there was no staff disability and fatality because of work-related injury in our Group.

In addition, the Group formulated annual medical examination (which covers more than 20 items) program for each employee, and the number of the employees participated in the medical examination during the year was 598 (since the medical exam was a voluntary choice of the employee, some employees failed to participate because of their self-condition or other considerations). Moreover, the Group provided the relevant positions with protective gears, including gloves, dust masks and working caps, and arranged flexible job rotation for the positions with risks to safeguard the staff's health. During the Reporting Period, the passing rate for the occupational disease exam of the staff of the Group was 100% and there was no accident arising from occupational disease or occupational hazards.

B3. TRAINING AND DEVELOPMENT

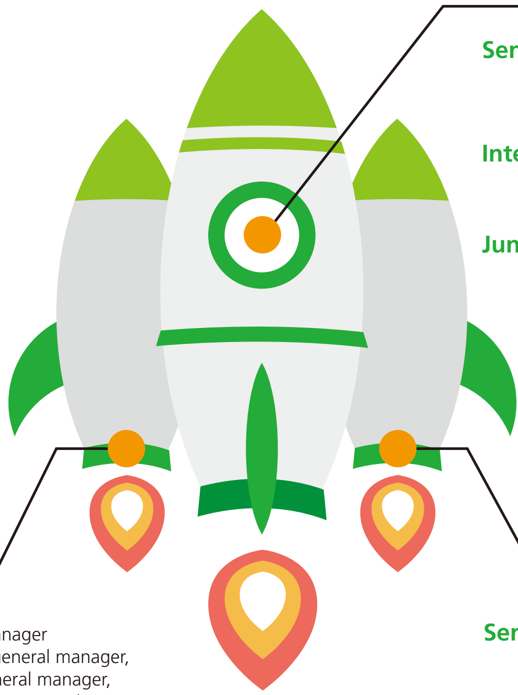
The Group provides comprehensive and sufficient opportunities of training, learning and development for employees with different positions and types of work. The training content includes corporate culture, operating skills of positions, technology development, communication and negotiation skills, management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

During the Reporting Period, the Group organized 273 training sessions and the number of employees who participated in the training reached 11,207 in respect of business development, professional skills and management skills, etc. The training time per employee is 26.14 learning hours. The total training expenses are approximately RMB103,000.

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

Key performance indicators	**2017**	2016
Number of employees	**1,235**	1,029
Total training expenses (RMB'0,000)	**10.3**	8.8
Total training hours of employees	**32,284**	37,766
Percentage of training received	**100%**	100%
By type of employment (hours/person)		
Average training hours per employee	**26.14**	37.96
By gender (hours/person)		
Male	**26.14**	37.96
Female	**26.14**	37.96
By type of employment (hours/person)		
Senior	**72**	88
Intermediate	**142**	120
General	**25.88**	37.44
Training category (person)		
Number of employees attending external training courses	**105**	162
Number of employees attending the Group's internal training courses	**1,235**	1,029

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



Management Sequence

Senior - general manager
executive general manager, deputy general manager,
general manager assistant

Intermediate - (deputy) department manager/
(deputy) director
manager assistant/(deputy) chief

Junior - supervisor/specialist
general staff

Technology Sequence

Senior - general manager
executive general manager,
deputy general manager,
general manager assistant
(deputy) chief engineer

Intermediate - professional (deputy)
chief engineer
professional engineer/
professional mechanic

Junior - technician/mechanic

Production Sequence

Senior - general manager
executive general manager,
deputy general manager,
(deputy) general manager
general manager assistant

Intermediate - (deputy) workshop manager
general manager of
the subsidiary, deputy
general manager of the
subsidiary

Junior - group leader/ technologist
technical worker

BALANCE BETWEEN WORK AND REST

In order to promote corporate culture, enhance organizational solidarity, and promote the concept of balance between work and life and healthy workplace, the Group organizes employees to conduct a wide range of recreational activities and sports activities such as lantern riddles, tug-of-war competitions, badminton competitions and basketball games, etc. every year to encourage employees to integrate into the corporate culture and develop the habit of regular exercise to keep fit.

B4. LABOR STANDARDS

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

During the Reporting Period, the Group was not aware of any illegal act of employing children or young people to engage in dangerous jobs or forced labor in any of its business or suppliers.

OPERATING PRACTICES

B5. SUPPLY CHAIN MANAGEMENT

Selection of suppliers

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

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

During the Reporting Period, the number of suppliers of the Group was as follow:

Cooperation with Suppliers

Key performance indicator	2017	2016
Total suppliers (Unit)	**84**	84
China	**59**	59
Egypt	**43**	24
Others	**1**	1

Relationship with Suppliers

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

Sunshine purchase

All purchasing staff are urged to sign the "Guarantee on Corruption-free and Self-discipline" to observe corruption-free and self-disciplined as well as to comply with professional ethics. Slogans like "Fairness, Justness, Openness" and "Sunshine Operation, No Bribery" are posted in visible places in conference rooms and negotiation rooms to remind all our staff to regulate their conduct at all times. Hotline for reporting is also provided to oversee the procurement process on ongoing basis.

B6. PRODUCT RESPONSIBILITIES

The Group considers product quality and enterprise credibility as the life of an enterprise, and is committed to providing products and services with low-price, high-quality, safety and stability to customers.

Product quality

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

All main products of the Group have obtained DNV GL certification granted by DNV GL (a renowned international certification body) and customer certification required by overseas manufacturers of wind turbine and blades. In order to obtain relevant certifications and ensure to maintain high-quality of the Group's products, the Testing Centre of the Group has conducted various functional tests on the strength, modulus and anti-fatigue of the products and raw materials of the Group.

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 that Hengshi Fiberglass has received full affirmation and recognition from international customers for areas of environmental protection and occupational health and safety assurance.

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

Customer complaints and returns and exchanges processing

The Group continues to optimize its philosophy on customer service, values highly the customer complaints against relevant products and services and developed the "Administrative Measures regarding to Customer Complaints, Returns and Claims" (《客戶投訴、退貨及索賠管理規定》) to regulate after-sales service so as to provide high-quality after-sales service and technical support to customers. In case of any product quality or technical issues, customers may advise on the products and services of the Group through our customer service hotline (+86-573-88136717) or demand to have your product returned and exchanged, etc.

During the Reporting Period, the Group received over 67 reports on complaints and feedbacks of products and services, which were handled in a timely manner and among which, 92.53% of them was solved during the Reporting Period.

Intellectual property rights

The Group values highly the R&D and innovation of fiberglass fabrics. The R&D department and quality department are responsible for the R&D, management and maintenance of intellectual property rights and maintaining good communication with the local intellectual property rights bureau where it operates. During the Reporting Period, the R&D expenses of the Group aggregated to approximately RMB34.02 million and was granted a total of 14 patent licenses. The number of patents authorized had accumulated up to 70, in which 6 were invention patents and 64 were utility model patents.

Customer privacy

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

During the Reporting Period, the Group did not receive nor notice any report regarding to customer privacy and loss of customers' information.

B7. ANTI-CORRUPTION

The Group actively encourages our employees to stick to the concept of probity, fairness, loyality and honesty in their daily words and deeds, and developed formal "Administrative Measures for Anti-fraud and Whistleblowing Mechanism" (《反舞弊與舉報機制管理辦法》), "Employee Manual" (《員工手冊》) to guide the conduct and behavior of employees in our daily operations, requiring our employees to refuse any behaviors of corruption, fraud, unfair competition, etc. Any bribery and any acts that are harmful to the Group, environment and society are strictly prohibited. Meanwhile, the Group also provides sophisticated reward and punishment system and reporting manners to ensure that all employees understand and implement the relevant code of conduct and ethics.

There were no cases of any corruption, bribery, extortion, fraud or money laundering during the Reporting Period. The Group will keep abiding by the Company's code of ethics, and maintaining our excellent reputation to prevent any corruption in the future.

B8. SOCIAL

Public Welfare

With the concept of "taking from the society and serving the public", the Group is willing to work with all stakeholders to create an environment for "harmonious development of employees, corporation and society". During the Reporting Period, the employees of the Group actively participated in various social and public welfare activities within their capacity, such as volunteer service at the World Internet Conference and voluntary blood donation, etc., so as to contribute their own love to society.

Voluntary Blood Donation Activity

SOCIAL DONATION

In order to plan the Group's social and public welfare undertakings better, the Group has taken environmental protection projects as the key to our public welfare supporting activities to raise the society's awareness of low-carbon environmental protection. Meanwhile, depending on the Group's demand for professionals and the actual needs of the local poverty-stricken students, the Group selectively carries out educational assistance activities.

On the eve of June 1, 2017, the Group organized a clothes donation activity titled "Love Connects You and Me, and Warms the Children in Mountain Regions". Most of our employees responded to it positively by offering their love to the unknown children in the remote mountain regions.

Donation of Love Activity

Corporate Governance Report

The Board is pleased to present the corporate governance report in this Annual Report for the year ended 31 December 2017.

CORPORATE GOVERNANCE PRACTICES

The Company strives to maintain high standards of corporate governance in order to safeguard the interests of Shareholders and enhance the corporate value and accountability. The Company has adopted the principles of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. During the year ended 31 December 2017, the Company has complied with all of the provisions set out in the CG Code.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

THE BOARD

Responsibility

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

Composition of the Board

Following the resignation and appointment of Directors on 22 May 2017 and 6 March 2018 (details of which were set out in the announcements of the Company dated 22 May 2017 and 6 March 2018, respectively), as at the date of this report, the Board currently comprises four non-executive Directors (i.e. Mr. Zhang Yuqiang (chairman of the Board), Mr. Zhang Jiankan, Mr. Tang Hsin-hua and Mr. Wang Yuan), two executive Directors (i.e. Mr. Zhou Tingcai and Ms. Huang Junjun) and three independent non-executive Directors (i.e. Mr. Xie Guoping, Mr. Lou Hetong and Mr. Zhao Jun). The biographical details of the Directors are set out in the section headed "Directors and Senior Management Profile" of this Annual Report.

For the year ended 31 December 2017 and up to the date of this Annual Report, the Board has complied with the Rules 3.10(1) and 3.10(2) of the Listing Rules which require the appointment of at least three independent non-executive Directors, among which, at least one independent non-executive Director must possess appropriate professional qualifications or accounting or related financial management expertise at any time.

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

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

Except that Mr. Zhang Yuqiang, the non-executive Director, and Mr. Zhang Jiankan, the non-executive Director, are the relationship of father and son, and the disclosure in the section headed "Directors and Senior Management Profile" in this Annual Report, each of the Directors does not have any personal relationships with any other Directors (including financial, commercial, family or other significant/relevant relationships).

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

Board diversity policy

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

Training of Directors

Directors' induction and continuous professional development

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

The training received by all Directors during the year ended 31 December 2017 is as follows:

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

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

Chairman and general manager

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

Appointment and re-election of Directors

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

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. Their appointment commenced on the date of signing of the appointment letter for a term which may be extended to such period as the Company and the independent non-executive Director may agree, and it may be terminated by either party by giving at least one month's written notice. Every Director is subject to retirement by rotation and re-election at the annual general meetings at least once every three years in accordance with the Articles of Association.

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

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

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

Responsibilities of the Board

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

Compliance with the Model Code

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of the Model Code in the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in such code of conduct regarding securities transactions by the Directors for the year ended 31 December 2017.

Liability insurance for the Directors

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

Remuneration of Directors and senior management

The Company has formulated the official and transparent procedures for the remuneration policy of the senior management of the Group. Details of the remuneration of the Directors for the year ended 31 December 2017 are set out in note 11 to the consolidated financial statements.

The remuneration paid to the senior management (exclusive of Directors) for the year ended 31 December 2017 was within the range below:

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

Board Committees

Audit Committee

Following the resignation and appointment of Directors on 22 May 2017 and 6 March 2018 (details of which were set out in the announcements of the Company dated 22 May 2017 and 6 March 2018, respectively), as at the date of this report, the Audit Committee comprises three members, namely Mr. Xie Guoping (chairman), the independent non-executive Director; Mr. Wang Yuan, the non-executive Director and Mr. Lou Hetong, the independent non-executive Director. The major responsibilities of the Audit Committee include the followings:

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2017, the Audit Committee held two meetings, on which the committee mainly reviewed the audited consolidated financial statements, annual results announcement and annual report of the Group for the year ended 31 December 2016, the unaudited financial statements, interim results announcement and interim report of the Group for the six months ended 30 June 2017, and discussed with the external auditor or the Directors and made recommendations on the accounting principles and practices adopted by the Company, the compliance with CG Code by the Company and the effectiveness of the risk management and internal control of the Company disclosed in this Annual Report.

Remuneration committee

Following the resignation and appointment of Directors on 22 May 2017 and 6 March 2018 (details of which were set out in the announcements of the Company dated 22 May 2017 and 6 March 2018, respectively), as at the date of this report, the Remuneration Committee comprises three members, namely Mr. Xie Guoping (chairman), the independent non-executive Director; Mr. Zhang Jiankan, the non-executive Director and Mr. Lou Hetong, the independent non-executive Director. The majority of the members of the Remuneration Committee are independent non-executive Directors. The major duties of the Remuneration Committee include:

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

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

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

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

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

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

7. to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

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

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

For the year ended 31 December 2017, the Remuneration Committee held two meetings, on which the committee reviewed and discussed the remuneration policy and structure of the Company, assessed the performance of the Directors and discussed the remuneration structure and policy for the Directors and senior management and made recommendations to the Board on matters such as the remuneration of certain Directors.

Nomination committee

Following the resignation and appointment of Directors on 22 May 2017 and 6 March 2018 (details of which were set out in the announcements of the Company dated 22 May 2017 and 6 March 2018, respectively), as at the date of this report, the Nomination Committee comprises three members, namely Mr. Zhang Yuqiang (chairman), the non-executive Director; Mr. Xie Guoping, the independent non-executive Director and Mr. Zhao Jun, the independent non-executive Director. The majority of the members of Nomination Committee are independent non-executive Directors. The major duties of the Nomination Committee include the followings:

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

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

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

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

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

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

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

For the year ended 31 December 2017, the Nomination Committee held two meetings, on which the committee reviewed the structure and composition of the Board, the qualification of the Directors and senior management and the independence of the independent non-executive Directors.

The Board and Board Committee meeting

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

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

For the year ended 31 December 2017, four Board meetings, two Audit Committee meetings, two Remuneration Committee meetings and two Nomination Committee meetings were held. The attendance of Directors at the Board and Board Committee meetings and the Annual General Meeting is set out as below:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Non-executive Directors					
Mr. Zhang Yuqiang *(chairman of the Board)*	4/4	–	–	2/2	1/1
Mr. Tang Hsin-hua	4/4	–	–	–	1/1
Mr. Zhang Jiankan	4/4	–	2/2	–	1/1
Mr. Wang Yuan	4/4	2/2	–	–	1/1
Executive Directors					
Mr. Zhou Tingcai	4/4	–	–	–	–
Ms. Huang Junjun	4/4	–	–	–	–
Independent non-executive Directors					
Mr. Xie Guoping	3/4	1/2	1/2	1/2	0/1
Mr. Chen Zhijie	2/4	–	–	1/2	1/1
Mr. Pan Fei	3/4	2/2	2/2	1/2	1/1

Note: Mr. Xie Guoping was appointed as a Director on 22 May 2017.

Directors' responsibilities for financial reporting in respect of financial statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern. The statement by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 75 to 78 of this Annual Report.

Risk management and internal control

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

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

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

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

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

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

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

For the year ended 31 December 2017, the Board has reviewed the effectiveness of the risk management and internal control systems of the Group, which covers the areas such as financial monitoring, operation management, legal compliance and risk management functions. The Board considered the operation of current risk management and internal control systems effective and adequate.

REMUNERATION OF AUDITORS

During the year, remuneration paid/payable to the auditors of the Company by the Company for professional auditing service amounted to RMB2.1 million in aggregate. Apart from this, the Company did not receive any other material non-auditing services provided by the auditor and paid for the related service fee.

JOINT COMPANY SECRETARIES

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

In order to maintain the sound corporate governance and ensure the compliance with the Listing Rules and applicable Hong Kong Laws, the Company also appointed Mr. Lui Chi Ho, a partner of Stevenson, Wong & Co., as the Joint Company Secretary with effect from 26 April 2017 following the resignation of Ms. Wong Sau Ping on the same date, assisting Mr. Yin to perform his duties of the company secretary of the Company. Mr. Yin is the major contact person between him and the Company.

For the year ended 31 December 2017, Mr. Yin and Mr. Lui received not less than 15 hours of relevant professional trainings pursuant to Rule 3.29 of the Listing Rules, respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The AGM will be held on Friday, 11 May 2018, and the notice of which will be posted to the Shareholders not less than 20 clear business days before the date of the AGM.

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

SHAREHOLDERS' RIGHTS

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

PROCEDURES TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

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

- Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at such meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong.

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

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

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

MAKING ENQUIRY TO THE BOARD

Shareholders may send their enquiries to the Board in respect of the Company by addressing to the principal place of business of the Company in Hong Kong. The enquiry address is 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong.

ARTICLES OF ASSOCIATION OF THE COMPANY

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

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 79 to 152, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Valuation of trade receivables We identified the valuation of trade receivables as a key audit matter because the amount was significant and the valuation of which involved judgement and significant estimation uncertainty. In determining the allowance for trade receivables, the management considers the credit history including default or delay in payments, settlement records and aging analysis of the trade receivables. At 31 December 2017, the carrying amount of trade receivables was RMB378,036,000 (net of allowance for doubtful debts of RMB33,751,000). Details of the trade receivables are set out in note 23 to the consolidated financial statements.	Our procedures in relation to valuation of trade receivables included: • Obtaining an understanding of how allowance for doubtful debts is estimated by the management and testing the key controls of the Group relating to the preparation of the aging analysis of trade receivables; • Reviewing the aging analysis of the trade receivables throughout the year to understand the settlement patterns by the customers; • Testing the aging analysis of the trade receivables, on a sample basis, to the source documents; and • Assessing the reasonableness of recoverability of trade receivables with reference to the credit history including default or delay in payments, settlement records and aging analysis of each individual customer.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is David Leung Ho Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	**Year ended 31/12/2017 RMB'000**	Year ended 31/12/2016 RMB'000
Revenue	5	**1,216,593**	1,236,439
Cost of sales		**(767,934)**	(815,718)
Gross profit		**448,659**	420,721
Other income	7	**16,697**	35,648
Other gains and losses	8	**(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	9	**(60)**	(5,784)
Profit before tax	10	**260,082**	312,193
Income tax expense	13	**(44,332)**	(59,360)
Profit for the year		**215,750**	252,833
Other comprehensive expense			
Item that may be reclassified subsequently 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)	15	**0.21**	0.26

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	**31/12/2017 RMB'000**	31/12/2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**570,425**	510,597
Prepaid lease payments	17	**29,257**	30,033
Intangible assets	18	**1,214**	–
Deferred tax assets	19	**14,043**	10,538
Deposits paid for acquisition of property, plant and equipment	20	**88,253**	78,695
Financial assets at fair value through profit or loss ("FVTPL")	21	**6,321**	–
		709,513	629,863
CURRENT ASSETS			
Inventories	22	**144,817**	126,132
Prepaid lease payments	17	**776**	776
Trade and other receivables	23	**404,917**	386,687
Bills receivables	24	**159,988**	36,500
Amounts due from related parties	25	**9,866**	14,401
Pledged bank deposits	26	**154,354**	133,603
Bank balances and cash	26	**324,968**	269,397
		1,199,686	967,496
CURRENT LIABILITIES			
Trade and other payables	27	**191,139**	34,779
Bills payables	28	**352,231**	271,013
Amounts due to related parties	25	**3,043**	11,461
Amount due to a shareholder	25	**–**	7
Tax payable		**16,022**	12,579
Bank borrowings	29	**–**	50,000
Deferred revenue	30	**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

	NOTES	31/12/2017 RMB'000	31/12/2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	19	9,594	7,886
Deferred revenue	30	1,950	2,250
		11,544	10,136
NET ASSETS		1,334,920	1,207,084
CAPITAL AND RESERVES			
Share capital	31	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

The consolidated financial statements on pages 79 to 152 were approved and authorised for issue by the board of directors of the Company on 23 March 2018 and are signed on its behalf by:

Mr. ZHANG Yuqiang
Director

Mr. ZHANG Jiankan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share Capital RMB'000	Share Premium RMB'000 (note a)	Statutory Reserve Surplus RMB'000 (note b)	Other Reserve RMB'000 (note c)	Retained Profits RMB'000	Proposed Final Dividend RMB'000	Translation Reserve RMB'000	Sub-total RMB'000	Non-controlling Interests RMB'000	Total RMB'000
At 1 January 2016	6,207	1,021,918	51,557	(104,532)	20,897	54,593	(548)	1,050,092	1,546	1,051,638
Profit (loss) for the year	–	–	–	–	257,787	–	–	257,787	(4,954)	252,833
Other comprehensive (expense) income for the year *(note d)*	–	–	–	–	–	–	(43,809)	(43,809)	1,015	(42,794)
Total comprehensive income (expense) for the year	–	–	–	–	257,787	–	(43,809)	213,978	(3,939)	210,039
Appropriation to statutory reserve	–	–	26,336	–	(26,336)	–	–	–	–	–
Payment of 2015 final dividends	–	–	–	–	–	(54,593)	–	(54,593)	–	(54,593)
Proposed 2016 dividends *(note 14)*	–	–	–	–	(88,500)	88,500	–	–	–	–
Deemed acquisition of additional interest in a subsidiary	–	–	–	(605)	–	–	–	(605)	605	–
At 31 December 2016	6,207	1,021,918	77,893	(105,137)	163,848	88,500	(44,357)	1,208,872	(1,788)	1,207,084
Profit for the year	–	–	–	–	214,049	–	–	214,049	1,701	215,750
Other comprehensive expense for the year	–	–	–	–	–	–	(4,568)	(4,568)	(13)	(4,581)
Total comprehensive income (expense) for the year	–	–	–	–	214,049	–	(4,568)	209,481	1,688	211,169
Appropriation to statutory reserve	–	–	19,276	–	(19,276)	–	–	–	–	–
Payment of 2016 final dividends	–	–	–	–	–	(88,500)	–	(88,500)	–	(88,500)
Proposed 2017 dividends *(note 14)*	–	–	–	–	(86,400)	86,400	–	–	–	–
Waiver of listing expense previously charged to share premium	–	5,167	–	–	–	–	–	5,167	–	5,167
Deemed acquisition of additional interest in a subsidiary	–	–	–	(2,124)	–	–	–	(2,124)	2,124	–
At 31 December 2017	6,207	1,027,085	97,169	(107,261)	272,221	86,400	(48,925)	1,332,896	2,024	1,334,920

Notes:

(a) The share premium represented the net effect of the following:

i. On 17 August 2015, 749,990,000 shares of the Company was allotted and issued to the then shareholders with par value of United States Dollar ("USD")0.001 (equivalent to RMB0.006) each amounting RMB4,591,000, which were credited as fully paid from other reserve amounting RMB607,109,000 upon completion of the issue of shares by the Company. This resulted in a share premium of RMB602,518,000;

ii. On 21 December 2015, the Company issued 250,000,000 shares with par value of USD0.001 (equivalent to RMB0.006) each at HK$2.15 (equivalent to RMB1.79) per share, which resulted in a share premium of RMB446,579,000; and

iii. The share issue cost amounting RMB22,012,000, including the waive of listing expense amounting RMB5,167,000.

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

(c) The other reserve represented the net effect of the following:

i. Capital contribution arising from the amounts of RMB607,109,000 was contributed by the shareholders of the Company in April 2015 as to facilitate the acquisition of 浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) ("Hengshi Fiberglass") from its then shareholders as part of the group reorganisation;

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

iii. On 17 August 2015, 749,990,000 shares of the Company was allotted and issued to the then shareholders with par value of USD0.001 (equivalent to RMB0.006) each amounting RMB4,591,000, which were credited as fully paid from other reserve amounting RMB602,518,000 upon completion of the issue of shares by the Company;

iv. On 20 December 2016, Hengshi Fiberglass made a capital contribution amounting to USD500,000 (equivalent to RMB3,448,000) to Hengshi Egypt Fiberglass Fabrics S.A.E ("Hengshi Egypt") in cash, while the remaining two shareholders of Hengshi Egypt, 振石集團華美新材料有限公司 (Zhenshi Group Huamei New Materials Co., Ltd) ("Huamei New Materials") and 浙江華駿投資有限公司 (Zhejiang Huajun Investment Co., Ltd.) ("Zhejiang Huajun"), waived their pre-emptive rights to make capital contributions to Hengshi Egypt. Consequently, the Group's proportion of ownership in Hengshi Egypt had been increased from 90% to 91.25%, while that of Huamei New Materials and Zhejiang Huajun each had been decreased from 5% to 4.375%, respectively. The deemed acquisition of additional interest in subsidiary resulted in debt of RMB605,000 to the reserve of the Group; and

Notes: (Continued)

(c) The other reserve represented the net effect of the following: (Continued)

v. On 5 January 2017, Hengshi Fiberglass made a capital contribution amounting to USD2,500,000 (equivalent to RMB17,375,000) to Hengshi Egypt in cash, while the remaining two shareholders of Hengshi Egypt, Huamei New Materials and Zhejiang Huajun, waived their pre-emptive rights to make capital contributions to Hengshi Egypt. Consequently, the Group's proportion of ownership in Hengshi Egypt had been increased from 91.25% to 94.62%, while that of Huamei New Materials and Zhejiang Huajun each had been decreased from 4.375% to 2.69%, respectively. The total deemed acquisition of additional interest in subsidiary result in a credit of RMB23,000 to the reserve of the Group;

On 4 December 2017, Hengshi Fiberglass made a capital contribution amounting to USD10,000,000 (equivalent to RMB69,370,000) to Hengshi Egypt by using the shareholder loan, while the remaining two shareholders of Hengshi Egypt, Huamei New Materials and Zhejiang Huajun, waived their pre-emptive rights to make capital contributions to Hengshi Egypt. Consequently, the Group's proportion of ownership in Hengshi Egypt had been increased from 94.62% to 97.88%, while that of Huamei New Materials and Zhejiang Huajun each had been decreased from 2.69% to 1.06%, respectively. The deemed acquisition of additional interest in subsidiary result in a debt of RMB2,147,000 to the reserve of the Group.

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

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

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

On 4 December 2017, the loan was then capitalized as additional capital contribution to Hengshi Egypt; and

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Profit before tax	**260,082**	312,193
Adjustments for:		
Allowance for doubtful debts	**15,406**	6,696
Reversal of allowance for doubtful debts	**(2,906)**	(6,696)
Allowance for inventories	**1,790**	2,837
(Gain) loss on financial instruments at FVTPL	**(6,321)**	3,000
Depreciation of property, plant and equipment	**68,502**	65,235
Release of prepaid lease payments	**776**	776
Amortization of intangible assets	**87**	–
Loss on disposal of property, plant and equipment	**17**	54
Finance costs	**60**	5,784
Bank interest income	**(5,960)**	(6,059)
Deferred revenue released as government grants	**(300)**	(300)
Net gain under the Compensation Agreement (as defined in note 17) received	**–**	(1,045)
Operating cash flows before movement in working capital	**331,233**	382,475
Increase in inventories	**(20,475)**	(32,272)
Increase in trade and other receivables	**(32,506)**	(56,242)
Increase in bills receivables	**(123,488)**	(20,970)
Decrease in amounts due from related parties	**4,535**	7,222
Increase (decrease) in trade and other payables	**148,378**	(9,072)
Increase in bills payables	**54,562**	87,258
Decrease in amounts due to related parties	**(8,332)**	(4,580)
Decrease in financial liabilities at FVTPL	**–**	(4,000)
Cash generated from operations	**353,907**	349,819
Income tax paid	**(42,657)**	(43,737)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**311,250**	306,082

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Cash flows from investing activities		
Purchase of property, plant and equipment	**(79,787)**	(31,180)
Deposits paid for acquisition of property, plant and equipment	**(18,253)**	(78,695)
Purchase of intangible assets	**(1,301)**	–
Cash received in respect of the Net Gain under the Compensation Agreement (as defined in note 17)	**–**	1,045
Interest received from bank deposits	**5,960**	6,059
Placement of pledged bank deposits	**(1,591,799)**	(1,123,808)
Withdrawal of pledged bank deposits	**1,571,048**	1,099,039
NET CASH USED IN INVESTING ACTIVITIES	**(114,132)**	(127,540)
Cash flow from financing activities		
New bank borrowings raised	**–**	280,000
Repayment of bank borrowings	**(50,000)**	(630,000)
Interest paid	**(120)**	(6,235)
Dividend paid	**(88,500)**	(54,593)
Advance from a shareholder	**–**	7
Repayment to a shareholder	**(7)**	–
Advance from a related party	**695**	83
Repayment to a related party	**(781)**	–
Share issue expenses paid	**–**	(977)
NET CASH USED IN FINANCING ACTIVITIES	**(138,713)**	(411,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**58,405**	(233,173)
Cash and cash equivalents at the beginning of the year	**269,397**	502,428
Effect of foreign exchange rate changes	**(2,834)**	142
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**324,968**	269,397

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 (the "BVI").

The Company acts as an investment holding company. The principle activities of its subsidiaries are described in note 39.

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 Company and its subsidiaries (collectively referred to as the "Group") have 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*

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

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enables users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes of foreign exchange rate; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 37. Consistent with transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 37, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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 19	*Plan Amendment, Curtailment or Settlement*[2]
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

Except for the new and amendments to IFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principle and interest on the principle outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principle and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred loss model under IFRS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised; and

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the type of the transaction eligible for hedge accounting, specifically broadening the type of instruments that qualify for hedging instruments and the type of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk measurement policies as at 31 December 2017, the directors of the Company have assessed the potential impact on initial application of IFRS 9 as follows.

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

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 9 Financial Instruments *(Continued)*

Classification and measurements:

- Trade and other receivables, bills receivables and amounts due from related parties carried at amortised cost as disclosed in notes 23, 24, and 25, respectively: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of IFRS 9; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IFRS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets that subject to the impairment provisions upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade and other receivables, deposits with financial institutions, bills receivables and amounts due from related parties. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets as at 1 January 2018.

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

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

Based on the current business model, the directors of the Company have assessed that the application of IFRS 15 would not result in significant impact on the timing and amounts of revenue recognised in the respective reporting periods. However, there will be additional qualitative and quantitative disclosures under the application of IFRS 15.

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

New and revised IFRSs in issue but not yet effective *(Continued)*

IFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB2,594,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB399,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

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

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivables from a foreign operation for which settlements is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised in other comprehensive income.

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

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

Current tax

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

Deferred tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax *(Continued)*

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

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

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

Property, plant and equipment

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

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

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

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

Intangible assets

Intangible assets with finite useful lives that are required separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisaiton for intangible assets with finite useful lives is recognised on a straight – line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any charges in estimated being accounted for on a prospective basis.

Research expenditure

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Financial assets at FVTPL

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

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

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 34.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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

Financial liabilities and equity instruments

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

Financial liabilities are classified as other financial liabilities.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Other financial liabilities

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

Equity instruments

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

Derecognition

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Derecognition (Continued)

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Key sources of estimation uncertainty

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

Estimated allowance for doubtful debt

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

As at 31 December 2017, the carrying amount of trade receivables was RMB378,036,000 (net of allowance for doubtful debt of RMB33,751,000) (31 December 2016: RMB371,795,000 (net of allowance for doubtful debt of RMB21,280,000)).

As at 31 December 2017, the carrying amount of amounts due from related parties was RMB9,866,000 (without allowance for doubtful debt) (31 December 2016: RMB14,401,000 (without allowance for doubtful debt)).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated allowance for inventories

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

As at 31 December 2017, the carrying amount of inventories was RMB144,817,000 (net of allowance for write-down of RMB6,651,000) (31 December 2016: RMB126,132,000 (net of allowance for write-down of RMB9,291,000)).

5. REVENUE

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

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *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 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *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

6. 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.

The accounting policies of the operating segment are the same as the Group's accounting policies described in note 3.

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.

	31/12/2017	31/12/2016
	RMB'000	*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 5.

6. SEGMENT INFORMATION *(Continued)*

Geographical information

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

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *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 excludes the PRC market.

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

6. SEGMENT INFORMATION *(Continued)*

Information about major customers

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

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *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 ended 31 December 2017.

7. OTHER INCOME

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Bank interest income	**5,960**	6,059
Government grants *(note)*	**5,765**	22,922
Gain on scrap sales	**4,890**	4,752
Sundry income	**82**	1,915
	16,697	35,648

Note: The government grants represented the amount received from the local government by Hengshi Fiberglass. During the year, government grants include (i) RMB5,465,000 (2016: RMB22,622,000) were unconditional and represented incentive for business development and (ii) RMB300,000 (2016: RMB300,000) was assets-related subsidy released to profit or loss during the year (Details as set out in Note 30).

8. OTHER GAINS AND LOSSES

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *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 (as defined in note 17) 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

9. FINANCE COSTS

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Interest on bank borrowings wholly repayable within five years	**60**	5,784

There are no borrowings used to finance the construction in progress for the years ended 31 December 2017 and 2016.

10. PROFIT BEFORE TAX

	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Profit before tax has been arrived at after charging		
Auditors' remuneration	**2,056**	2,250
Directors' emoluments *(note 11)*	**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 inventories	**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

11. DIRECTORS' EMOLUMENTS

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

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance Related bonus *(note c)* *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total emoluments *RMB'000*
Year ended 31 December 2017					
Executive directors					
Mr. Zhou Tingcai	–	780	70	18	868
Ms. Huang Junjun	–	611	71	22	704
	–	1,391	141	40	1,572

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

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance Related bonus *(note c)* *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total emoluments *RMB'000*
Non-executive directors					
Mr. Zhang Yuqiang	3,000	–	–	–	3,000
Mr. Tang Hsinhua	–	–	–	–	–
Mr. Wang Yuan	346	–	–	–	346
Mr. Zhang Jiankan	356	–	–	–	356
	3,702	–	–	–	3,702

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

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance Related bonus *(note c)* *RMB'000*	Retirement benefits schemes contribution *RMB'000*	Total emoluments *RMB'000*
Independent Non-executive directors					
Mr. Fang Xianbai *(note a)*	57	–	–	–	57
Mr. Chen Zhijie	120	–	–	–	120
Mr. Xie Guoping *(note a)*	63	–	–	–	63
Mr. Pan Fei *(note b)*	100	–	–	–	100
	340	–	–	–	340

11. DIRECTORS' EMOLUMENTS *(Continued)*

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

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

	Fee	Salaries and other benefits	Performance Related bonus	Retirement benefits schemes contribution	Total emoluments
Non-executive directors					
Mr. Zhang Yuqiang	3,000	–	–	–	3,000
Mr. Tang Hsinhua	–	–	–	–	–
Mr. Wang Yuan	–	–	–	–	–
Mr. Zhang Jiankan	–	–	–	–	–
	3,000	–	–	–	3,000

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

	Fee	Salaries and other benefits	Performance Related bonus	Retirement benefits schemes contribution	Total emoluments
Independent Non-executive directors					
Mr. Fang Xianbai	120	–	–	–	120
Mr. Chen Zhijie	120	–	–	–	120
Mr. Pan Fei	120	–	–	–	120
	360	–	–	–	360

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

11. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

(a) On 21 May 2017, Mr. Fang Xianbai has retired as an independent non-executive director, the chairman of the audit committee of the Board, the chairman of the remuneration committee of the Board and a member of the nomination committee of the Board. In replacement of Mr. Fang Xianbai, Mr. Xie Guoping has been appointed as a member and chairman of the audit committee of the Board, a member and chairman of the remuneration committee of the Board and a member of the nomination committee of the Board with effect from 22 May 2017.

(b) On 6 March 2018, Mr. Pan Fei has retired as an independent non-executive director, a member of audit committee and a member of remuneration committee. In replacement of Mr. Pan Fei, Mr. Lou Hetong has been appointed as an independent non-executive director, a member of audit committee and a member of remuneration committee with effect from 6 March 2018.

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

All of the directors' emoluments during the years ended 31 December 2017 and 2016 were borne by the Group.

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

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three (2016: three) directors, details of whose emoluments are set out in note 11 above. Details of the remuneration for the year of remaining two (2016: two) highest paid employees who are neither directors nor chief executives of the Company are as follow.

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *RMB'000*
Salaries and other benefits	**1,702**	631
Performance related bonus *(note)*	**71**	57
Retirement benefits schemes contribution	**28**	43
Total	**1,801**	731

Note:

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

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

	Year ended 31/12/2017	Year ended 31/12/2016
Nil to HK$1,000,000	**1**	2
HK$1,000,001 to HK$1,500,000	**1**	–
	2	2

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

13. INCOME TAX EXPENSE

	Year ended 31/12/2017	Year ended 31/12/2016
	RMB'000	*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 *(note 19)*	**(1,768)**	4,998
	44,332	59,360

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

	Year ended 31/12/2017	Year ended 31/12/2016
	RMB'000	*RMB'000*
Profit before tax	**260,082**	312,193
Tax at PRC EIT rate of 25% (2016: 25%)	**65,021**	78,048
Tax effect of expenses not deductible for tax purposes	**3,297**	16,006
Tax effect attributable to the additional qualified tax deduction relating to research costs	**(375)**	(250)
Tax effect of income not taxable for tax purpose	**(10,386)**	(14,065)
Withholding tax	**8,948**	11,616
Income tax at concessionary rate	**(22,836)**	(30,774)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(1,137)**	(825)
Under (over) provision in prior years	**1,800**	(396)
Income tax expense	**44,332**	59,360

25% is the tax rate in the jurisdiction where the operation of the Group is substantially based.

13. INCOME TAX EXPENSE *(Continued)*

Note:

Under the relevant tax law and implementation regulations in the PRC, withholding income tax is applicable to interest and dividends payable to investors that are "non-tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such interest or dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to offshore group entities in respect of the undistributed profits attributable to the Group as earned by the Group's PRC subsidiaries from 1 January 2008 onwards shall be subject to the withholding tax at 10% or a lower treaty rate. Withholding tax has been provided for based on the anticipated dividends to be distributed by the PRC entities.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for Hengshi Fiberglass as it 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.

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.

14. 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.

15. EARNINGS PER SHARE

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

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *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

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

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture and office equipment	Construction In progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2016	171,571	561,066	188	4,563	106,311	843,699
Additions	1,440	10,702	3,802	2,304	27,115	45,363
Transfers	(2,403)	90,557	27	374	(88,555)	–
Disposals	(354)	(350)	–	(4)	–	(708)
Exchange adjustment	(1,618)	(661)	(101)	(365)	(14,011)	(16,756)
At 31 December 2016	168,636	661,314	3,916	6,872	30,860	871,598
Additions	978	11,150	1,125	6,828	108,966	129,047
Transfers	30,884	56,763	146	70	(87,863)	–
Disposals	–	(125)	–	(8)	–	(133)
Exchange adjustment	(53)	(471)	(7)	(27)	(262)	(820)
At 31 December 2017	200,445	728,631	5,180	13,735	51,701	999,692
DEPRECIATION						
At 1 January 2016	(36,163)	(258,587)	(21)	(1,805)	–	(296,576)
Provided for the year	(8,401)	(55,888)	(297)	(649)	–	(65,235)
Eliminated on disposals	354	297	–	3	–	654
Exchange adjustment	72	34	12	38	–	156
At 31 December 2016	(44,138)	(314,144)	(306)	(2,413)	–	(361,001)
Provided for the year	(8,392)	(58,395)	(229)	(1,486)	–	(68,502)
Eliminated on disposals	–	113	–	3	–	116
Exchange adjustment	16	92	6	6	–	120
At 31 December 2017	(52,514)	(372,334)	(529)	(3,890)	–	(429,267)
CARRYING VALUES						
At 31 December 2017	147,931	356,297	4,651	9,845	51,701	570,425
At 31 December 2016	124,498	347,170	3,610	4,459	30,860	510,597

The Group had pledged certain of its property, plant and equipment to secure general banking facilities granted to the Group as at 31 December 2017 and 2016. Details are set out in note 35.

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

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

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

During the year ended 31 December 2017, the Group also purchased machinery and equipment totaling RMB244,000 (2016: RMB2,123,000) from related parties. Details are set out in note 38.

17. PREPAID LEASE PAYMENTS

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Analysed for the reporting purpose as:		
Non-current portion	**29,257**	30,033
Current portion	**776**	776
	30,033	30,809

Amortisation is calculated using the straight-line method over the remaining useful lives of 39 years for all the prepaid lease payments.

The Group had pledged certain of its prepaid lease payments in respect of the leasehold land interests to secure general banking facilities granted to the Group as at 31 December 2016. Details are set out in note 35.

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

The land use right was put in auction ("Auction"), which was completed in November 2015, and the land use right was sold to a subsidiary of Zhenshi Holding Group Co., Ltd. ("Zhenshi Group"), a related party of the Group. During the year ended 31 December 2016, the compensation and necessary costs for the Auction was finalised and approved by the relevant government authority and Hengshi Fiberglass received net gain of RMB1,045,000 according to the Compensation Agreement and was credited to profit or loss accordingly.

18. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2017, 31 December 2016 and 1 January 2016	–
Additions	1,301
At 31 December 2017	1,301
AMORTISATION	
At 1 January 2017, 31 December 2016 and 1 January 2016	–
Additions	87
At 31 December 2017	87
CARRYING VALUE	
At 31 December 2017	1,214
At 31 December 2016	–

19. DEFERRED TAX ASSETS (LIABILITIES)

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Deferred tax assets	**14,043**	10,538
Deferred tax liabilities	**(9,594)**	(7,886)
	4,449	2,652

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

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

	Financial instruments at FVTPL	Allowance for doubtful debts	Allowance for inventories	Depreciation of property plant and equipment	Tax loss	Unrealised profit	Withholding tax	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	150	3,192	1,273	2,452	1,556	298	(2,336)	1,485	8,070
(Charged) credited to profit or loss	(150)	–	120	358	(1,136)	519	(5,550)	841	(4,998)
Exchange adjustments	–	–	–	–	(420)	–	–	–	(420)
At 31 December 2016	–	3,192	1,393	2,810	–	817	(7,886)	2,326	2,652
Credited (charged) to profit or loss	–	1,875	(396)	(3,226)	1,133	1,830	886	(334)	1,768
Exchange adjustments	–	–	–	51	(22)	–	–	–	29
At 31 December 2017	–	5,067	997	(365)	1,111	2,647	(7,000)	1,992	4,449

There were no other significant unrecognised temporary differences for the years ended 31 December 2017 and 2016.

Under the relevant tax law and implementation regulations in the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation has been provided in respect of the temporary differences associated with the undistributed profits earned by the PRC subsidiary, Hengshi Fiberglass, as at 31 December 2017 at the applicable withholding tax rate of 10%. Deferred taxation has not been provided in respect of temporary differences attributable to the undistributed profits earned by Hengshi Fiberglass as at 31 December 2017 of RMB525,242,000 (2016: RMB450,248,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Deposits paid for acquisition of property, plant and equipment	**88,253**	78,695

During the year end 31 December 2016, the Group entered into an agreement with Zhenshi Group to acquire certain office units of an office building located in Zhejiang Province, the PRC, which is currently under development, for a total consideration of RMB75,891,000 and a deposit of RMB70,000,000 has been placed by the Group to Zhenshi Group in year 2016. As at 31 December 2017, the balance of deposit to Zhenshi Group to acquire the office units remains as RMB70,000,000. The office units will be transferred to the Group upon completion of development. The management of the Group expects the development of the office building would be completed and transferred to the Group in 2018.

The remaining balance of RMB18,253,000 (31 December 2016: RMB8,695,000) as of 31 December 2017 represents the partial payments made by the Group for the acquisition of machineries, of which would be transferred to property, plant and equipment when the machineries were installed and put into use.

The related capital commitment is set out in note 33.

21. FINANCIAL ASSETS AT FVTPL

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Foreign currency forward contracts classified as financial assets at FVTPL	6,321	–

There are no unsettled foreign currency forward contracts held by the Group as at 31 December 2016.

Major terms of the foreign currency forward contracts, which were all settled on a gross basis, outstanding at the end of 31 December 2017 are as follows.

As at 31 December 2017

Notional amount	Maturity	Reference exchange rate
USD2,500,000	From 7 to 31 January 2019	Sell USD/Buy RMB at 6.7828
USD2,500,000	From 12 to 28 February 2019	Sell USD/Buy RMB at 6.7962
USD2,500,000	From 7 to 29 March 2019	Sell USD/Buy RMB at 6.8047
USD2,500,000	From 8 to 30 April 2019	Sell USD/Buy RMB at 6.8165
USD2,500,000	From 7 to 31 May 2019	Sell USD/Buy RMB at 6.8274
USD2,500,000	From 10 to 28 June 2019	Sell USD/Buy RMB at 6.8388
USD3,500,000	From 8 to 31 July 2019	Sell USD/Buy RMB at 6.8494
USD3,500,000	From 7 to 30 August 2019	Sell USD/Buy RMB at 6.8598
USD3,500,000	From 9 to 30 September 2019	Sell USD/Buy RMB at 6.8706
USD3,500,000	From 8 to 31 October 2019	Sell USD/Buy RMB at 6.8811
USD3,500,000	From 7 to 29 November 2019	Sell USD/Buy RMB at 6.8913
USD3,500,000	6 December 2019	Sell USD/Buy RMB at 6.9023

22. INVENTORIES

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Raw materials	**29,173**	14,559
Work in progress	**19,507**	14,353
Finished goods	**96,137**	97,220
	144,817	126,132

During the year ended 31 December 2017, the Group recorded allowance for inventories in the amount of RMB1,790,000 (2016: RMB2,837,000), which has been recognised and included in cost of sales.

During the year ended 31 December 2017, the Group recorded write-downs of inventories in the amount of RMB4,430,000 (2016: RMB2,035,000).

23. TRADE AND OTHER RECEIVABLES

	31/12/2017 *RMB'000*	31/12/2016 *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.

23. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group allows a credit period ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance of doubtful debts, presented based on the invoice date, which approximate the revenue recognition date.

	31/12/2017	31/12/2016
	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

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.

Included in the Group's trade receivable balance are trade receivables with a carrying amount of RMB240,927,000 (31 December 2016: RMB221,098,000) as at 31 December 2017, which are neither past due nor impaired. The management considers that these trade receivables are of good quality given the continuous settlement from customers throughout the year.

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

	31/12/2017	31/12/2016
	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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

Movements in the allowance for doubtful debts

	Year ended 31/12/2017 ***RMB'000***	Year ended 31/12/2016 *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

Included in the balance of allowance for doubtful debts are individually impaired trade receivables in full with an aggregate balance of RMB24,683,000 (31 December 2016: RMB16,479,000) as at 31 December 2017. With reference to the historical experience of these receivables, the collection of these receivables may not be recoverable. The Group does not hold any collateral over these balances.

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

	31/12/2017 ***RMB'000***	31/12/2016 *RMB'000*
USD	**131,153**	144,580
European dollars ("EUR")	**4,462**	12,514
	135,615	157,094

24. BILLS RECEIVABLES

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

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Within 90 days	**58,728**	19,000
91 to 180 days	**88,994**	12,500
Over 180 days	**12,266**	5,000
	159,988	36,500

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

(A) Amounts due from related parties:

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Trade related	**9,866**	14,401

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

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

Trade related balances:

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

Name	*Relationship Notes*	**31/12/2017 *RMB'000***	31/12/2016 *RMB'000*
Zhenshi Holding Group Co., Ltd.# (振石控股集團有限公司) ("Zhenshi Group")	(i)	**201**	–
Zhenshi Group (HK) Sinosia Technology Company Limited ("Sinosia Technology")	(i)	**4,670**	8,629
Zhenshi Spain S.A.	(i)	**638**	668
Inspirock Hotel Co., LTD.# (振石大酒店有限公司) ("Inspirock Hotel")	(i)	**–**	59
Jushi France, SAS ("Jushi France")	(ii)	**–**	36
Temax Italia S.R.L. ("Temax Italia")	(ii)	**25**	192
Jushi India FRP Accessories ("Jushi India")	(ii)	**445**	466
Jushi Canada Fiberglass Co., Ltd. ("Jushi Canada")	(ii)	**59**	8
Jushi Group (BZ) Sinosia Compositos Mat ("Jushi Group (BZ)")	(ii)	**3,274**	3,127
Jushi Group (HK) Sinosia Compositos Mat ("Jushi Group (HK)")	(ii)	**554**	289
Jushi Group (SA) Sinosia Compositos Mat ("Jushi Group (SA)")	(ii)	**–**	4
Jushi Spain, S.A. ("Jushi Spain")	(ii)	**–**	923
		9,866	14,401

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

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

Trade related balances: *(Continued)*

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

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Within 120 days	4,481	4,638
121 to 180 days	218	478
181 days to 1 year	200	8,617
Over 1 year	4,967	668
	9,866	14,401

Included in the Group's amounts due from related parties are trade related receivable with a carrying amount of RMB4,481,000 (31 December 2016: RMB4,579,000) as at 31 December 2017, which are neither past due nor impaired. The management considers that these trade receivables are of good quality given the continuous settlement from the related parties.

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

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Within 120 days	–	59
121 to 180 days	218	478
181 days to 1 year	200	8,617
Over 1 year	4,967	668
	5,385	9,822

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

(B) Amounts due to related parties:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Trade related	3,043	11,375
Non-trade related	–	86
	3,043	11,461

Trade related balances:

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

Name	*Relationship Notes*	Year ended 31/12/2017 RMB'000	Year ended 31/12/2016 RMB'000
Sinosia Technology	(i)	1,114	–
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")	(i)	154	6,503
Jushi USA Fiberglass Co., Ltd ("Jushi USA")	(ii)	72	255
Jushi France	(ii)	82	–
Jushi Egypt for Fiberglass Industry S.A.E. ("Jushi Egypt")	(ii)	–	122
Shanghai Tianshi International Logistics Co., Ltd.# (上海天石國際貨運代理有限公司) ("Shanghai Tianshi")	(iii)	1,621	4,487
Marquis Logistics, INC. ("Marquis Logistics")	(iii)	–	8
		3,043	11,375

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

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

Trade related balances: *(Continued)*

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

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Within 90 days	3,043	11,375

Non-trade related balances:

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

Name	*Relationship* *Note*	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Sinosia Technology	(i)	–	86

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

(C) Amount due to a shareholder:

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Non-trade related	–	7

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

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

Non-trade related balance:

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

Name	*Relationship Note*	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Huakai Investment	(iv)	–	7

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

English translated name is for identification purpose only.

Notes:

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

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

(iii) The management considers these entities related as Mr. Zhang Jiankan, who is the son of Mr. Zhang Yuqiang and one of the Controlling Shareholders and key management personal of the Group, has controlling interest in these entities.

(iv) The management considers this entity related as the entity is a shareholder of the Company.

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

	Amounts due from related parties		Amounts due to related parties/a shareholder	
	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
USD	9,665	14,342	1,829	10,748
EUR	–	–	–	249
	9,665	14,342	1,829	10,997

26. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits with original maturity of more than three months carried interest at fixed rates ranging from nil to 1.55% (31 December 2016: from nil to 3.25%) per annum. The bank deposits have been pledged to secure the Group's issuance of short-term bills payables and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payables and foreign currency forward contracts.

Bank balances

Bank balances carried interest at prevailing market rates ranging from nil to 0.35% (31 December 2016: from nil to 0.39%) per annum.

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Hong Kong dollars ("HKD")	**733**	931
USD	**118,814**	81,266
EUR	**9,319**	29,498
Japanese Yen ("JPY")	**3**	4
	128,869	111,699

27. TRADE AND OTHER PAYABLES

	31/12/2017	31/12/2016
	RMB'000	*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.

	31/12/2017	31/12/2016
	RMB'000	*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

27. TRADE AND OTHER PAYABLES *(Continued)*

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

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
USD	**6,291**	626
HKD	**26**	252
	6,317	878

28. BILLS PAYABLES

The aged analysis of bills payables presented based on the issuance date at the end of the years was as follow.

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Within 30 days	**142,372**	82,757
31 to 60 days	**32,288**	48,844
61 days 90 days	**30,869**	34,571
91 to 180 days	**146,702**	104,841
	352,231	271,013

As at 31 December 2017, bills payables amounted to RMB121,000, RMB14,049,000, RMB275,465,000, RMB1,476,000 and RMB15,245,000 are issued to Tongxiang Huarui Automatic Control Technology and Equipment Co., Ltd. (桐鄉華鋭自控技術裝備有限公司) ("Tongxiang Huarui"), Jushi Group Co., Ltd. (巨石集團有限公司) ("Jushi Group"), China Jushi Co., LTD. (中國巨石股份有限公司) ("China Jushi"), Shanghai Tianshi and Yushi International, for the settlement of raw material and services from which the Group purchased and received.

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

29. BANK BORROWINGS

	31/12/2017 RMB'000	31/12/2016 RMB'000
Bank borrowings	–	50,000

The bank borrowings were guaranteed and secured by:

	31/12/2017 RMB'000	31/12/2016 RMB'000
Unguaranteed and secured by property plant and equipment and prepaid lease payments owned by the Group *(Note 35)*	–	50,000
	–	50,000
The bank borrowings comprise:		
Variable-rate borrowings	–	50,000
	–	50,000
Carrying amount repayable *(note)*		
Within one year (shown under current liabilities)	–	50,000

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

	31/12/2017	31/12/2016
Variable-rate borrowings	n/a	4.35%

The bank borrowing has been repaid in full during the year.

Note:

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

30. DEFERRED REVENUE

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Arising from government grant	3,000	3,000
Current liabilities	300	300
Non-current liabilities	1,950	2,250
	2,250	2,550

During the year ended 31 December 2014, Hengshi Fiberglass received a government grant amounted to RMB3,000,000, which was a subsidy related to the purchase of manufacturing equipment, which shall be charged to profit or loss over the useful lives of these assets when they become ready to use. RMB300,000 (2016: RMB300,000) had been credited to profit or loss as government grant for the year ended 31 December 2017.

31. SHARE CAPITAL

The Company was incorporated on 23 February 2015 and became the holding company of the entities now comprising the Group in April 2016. The issued capital at 31 December 2017 and 2016 represents the issued capital of the Company.

Details of movements of share capital of the Company are as follows:

	Number of shares	Amount
		USD
Ordinary shares of US$0.001 each		
Authorised		
As at 31 December 2017 and 2016	2,000,000,000	2,000,000

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

32. OPERATING LEASES

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2017 was RMB1,351,000 (2016: RMB4,781,000).

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Within one year	**1,738**	1,180
In the second to fifth years inclusive	**856**	1,420
	2,594	2,600

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

33. CAPITAL COMMITMENTS

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

	31/12/2017	31/12/2016
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment, contracted for but not provided for in the consolidated financial statement	**15,733**	41,403

34. CAPITAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Capital risk management

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

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

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

Categories of financial instruments

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Financial Assets		
Loans and receivables (including cash and cash equivalents)	**1,036,728**	833,099
Financial assets at FVTPL	**6,321**	–
Total	**1,043,049**	833,099
Financial Liabilities	**529,651**	360,130

Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits, bank balances and cash, financial assets at FVTPL, trade and other payables, bills payables, amounts due to related parties, amount due to a shareholder and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

Financial risk management objectives and policies *(Continued)*

Market risk

(i) Currency risk

The Group has foreign currency sales and purchases, which exposes it to foreign currency risk. The Group currently does not have a formal foreign currency hedging policy but use foreign currency forward contracts to hedge against the risk when it is foreseen to be significant. Details of the foreign currency forward contracts entered into by the Group and still outstanding at the end of the year are set out in note 21. There was no foreign currency forward contracts outstanding as at 31 December 2016. The management manages the foreign currency risk by closely monitoring the movement of the foreign exchange rate.

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

	Assets		Liabilities	
	31/12/2017	31/12/2016	**31/12/2017**	31/12/2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
HKD	**750**	931	**–**	252
USD	**357,296**	240,188	**65,063**	11,374
EUR	**13,781**	42,012	**26**	249
JPY	**3**	4	**–**	–
	371,830	283,135	**65,089**	11,875

Sensitivity analysis

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

The sensitivity analysis below details the Group's sensitivity to a 5% (2016: 5%) increase and decrease in HKD, USD and EUR against the functional currencies, 5% (2016: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the year for a 5% (31 December 2016: 5%) change in foreign currency rates, except for the impact of the forward foreign currency contracts. A positive (negative) number below indicates an increase (decrease) in profit or equity where the relevant foreign currencies strengthen 5% (2016: 5%) against functional currencies. For a 5% (31 December 2016: 5%) weakening of the relevant foreign currency against functional currencies, there would be a comparable impact on the profit or equity, and the balances below would be negative.

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

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

	31/12/2017	31/12/2016
USD	10,810	9,952
EUR	566	1,670
	11,376	11,622

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

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings (see notes 26 and 29 for details of these balances) due to the fluctuation of the prevailing market interest rate. The Group currently does not have a policy on hedging interest rate risk. However, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

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

Credit risk

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

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

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

Financial risk management objectives and policies *(Continued)*

Credit risk *(Continued)*

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

	31/12/2017	31/12/2016
Amount due from the largest debtor as a percentage to trade receivables	17%	26%
Total amounts due from the five largest debtors as a percentage to trade receivables	59%	62%

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

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

Liquidity risk

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

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

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

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

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

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

Liquidity tables

Non-derivative financing liabilities

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2017						
Trade and other payables	–	703	173,674	–	174,377	174,377
Bills payables	–	8,021	138,681	205,529	352,231	352,231
Amounts due to related parties	–	–	3,043	–	3,043	3,043
		8,724	315,398	205,529	529,651	529,651
As at 31 December 2016						
Trade and other payables	–	476	27,173	–	27,649	27,649
Bills payables	–	21,357	83,484	166,172	271,013	271,013
Amounts due to related parties	–	86	11,375	–	11,461	11,461
Amount due to a shareholder	–	7	–	–	7	7
Bank borrowings – variable rate*	4.35	181	363	50,888	51,432	50,000
		22,107	122,395	217,060	361,562	360,130

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

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

Financial risk management objectives and policies *(Continued)*

Liquidity tables *(Continued)*

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

The Group's available banking financing facilities amounts to RMB355,678,000 (31 December 2016: RMB452,028,000) were unused as at 31 December 2017, which is subject to approval on a case by case basis. The Group expects to meet its other obligations from operating cash flows and of maturing financial assets.

The following table detailed the Group's liquidity analysis for its derivative financial instruments as at 31 December 2017. The table had been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable was not fixed, the amount disclosed had been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the year. There was no derivative financial instruments as at 31 December 2016.

Derivative financial instruments

	Within 1 year *RMB'000*	1-5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Total carrying amount *RMB'000*
As at 31 December 2017				
Gross settled:				
Foreign currency forward contracts				
– inflow	–	246,557	246,557	232,808
– outflow	–	(239,877)	(239,877)	(226,487)
	–	6,680	6,680	6,321

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

Financial risk management objectives and policies *(Continued)*

Liquidity tables *(Continued)*

Fair value measurements

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

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

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

The Group's financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial Assets	Classified as	Fair value *RMB'000*	Fair value hierarchy	Basis of fair value measurement/ valuation technique(s) and key input(s)
As at 31 December 2017				
Foreign currency forward contracts	Financial assets at FVTPL	Assets 6,321	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the year) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties
As at 31 December 2016				
Not applicable	Not applicable	Nil	Not applicable	Not applicable

35. PLEDGE OF ASSETS

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

	31/12/2017 *RMB'000*	31/12/2016 *RMB'000*
Property, plant and equipment	**115,489**	124,647
Prepaid lease payments	**–**	16,557
	115,489	141,204

36. RETIREMENT BENEFITS PLANS

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

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

The amount of contributions made by the Group in respect of the retirement benefit scheme during the year ended 31 December 2017 is RMB5,175,000 (2016: RMB5,327,000).

37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	At 1 January 2017	Financing cash flows	Dividend declared	Interest expense	At 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	50,000	(50,000)	–	–	–
Interest payables	60	(120)	–	60	–
Amount due to a shareholder	7	(7)	–	–	–
Amounts due to related parties	86	(86)	–	–	–
Dividend payable	–	(88,500)	88,500	–	–
	50,153	(138,713)	88,500	60	–

38. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship	Nature of transaction	Year ended 31/12/2017 RMB'000	31/12/2016 RMB'000
Zhenshi Group	*note 25(i)*	Sales of finished goods	**192**	1,844
		Purchase of property, plant and equipment	**–**	519
		Service charges incurred	**313**	–
		Rental expense	**111**	192
		Deposits placed for the acquisition of property, plant and equipment	**–**	70,000
		Scrap sales earned	**–**	125
Sinosia Technology	*note 25(i)*	Sales of finished goods	**–**	12,264
		Prepaid admin expenses paid on behalf of the Group	**173**	83
		Prepayment received for sales of finished goods	**941**	–
Huamei New Materials	*note 25(i)*	Purchase of property, plant and equipment	**–**	8
Yushi International	*note 25(i)*	Services charges incurred	**53,904**	54,050
		Prepayment of value added tax in respect of overseas purchase of machineries	**97**	2,635
Zhenshi Group Jucheng Real Estate Development Co., Ltd.# (振石集團巨成置業有限公司)	*note 25(i)*	Services charges incurred	**–**	471
Inspirock Hotel	*note 25(i)*	Services charges incurred	**1,583**	1,488

38. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related party	Relationship	Nature of transaction	Year ended 31/12/2017 RMB'000	31/12/2016 RMB'000
Zhengshi Yongchang Composites Co., Ltd.# (振石永昌複合材料有限公司)	*note 25(i)*	Sales of finished goods	**773**	–
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司)	*note 25(i)*	Services charges incurred	**470**	908
Tongxiang Kangshi Traditional Chinese and Western Medical Clinic Company Limited# (桐鄉康石中西醫結合門診有限公司)	*note 25(i)*	Services charges incurred	**347**	421
Tongxiang Huarui	*note 25(i)*	Purchase of raw materials	**–**	23
		Purchase of property, plant and equipment	**244**	1,581
Jushi Group	*note 25(ii)*	Purchase of raw materials	**15,088**	14,714
		Purchase of property, plant and equipment	**–**	15
		Service income earned	**–**	22
P-D Jushi Interglas Co., Ltd.# (巨石攀登電子基材有限公司)	*note 25(ii)*	Rental expense incurred	**16**	19
		Purchase of raw materials	**3,844**	4,332
Jushi France	*note 25(ii)*	Sales of finished goods	**589**	793
		Prepayment received for sales of finished goods	**82**	–
Temax Italia	*note 25(ii)*	Sales of finished goods	**530**	820
Jushi Singapore Pte. Ltd.	*note 25(ii)*	Sales of finished goods	**–**	946
Jushi India	*note 25(ii)*	Sales of finished goods	**1,521**	860

38. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related party	Relationship	Nature of transaction	Year ended 31/12/2017 RMB'000	31/12/2016 RMB'000
Jushi Canada	*note 25(ii)*	Sales of finished goods	**797**	625
Jushi USA	*note 25(ii)*	Purchase of raw materials	**404**	–
		Rental expense incurred	**660**	252
Jushi Spain	*note 25(ii)*	Sales of finished goods	**1,016**	2,504
Jushi Group (BZ)	*note 25(ii)*	Sales of finished goods	**5,683**	5,241
Jushi Group (HK)	*note 25(ii)*	Sales of finished goods	**1,660**	1,044
Jushi Group (SA)	*note 25(ii)*	Sales of finished goods	**–**	4
Jushi Egypt	*note 25(ii)*	Purchase of raw materials	**27,554**	1,837
		Rental expense incurred	**153**	–
		Services charges incurred	**105**	–
		Rental income earned	**60**	–
		Scrap sales earned	**89**	–
China Jushi	*note 25(ii)*	Purchase of raw materials	**495,152**	588,018
		Scrap sales earned	**626**	768
Shanghai Tianshi	*note 25(iii)*	Services charges incurred	**20,124**	14,957
Marquis Logistics	*note 25(iii)*	Services charges incurred	**–**	633
Huakai Investment	*note 25(iv)*	Prepaid administrative expense paid on behalf of the Group	**–**	7

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

38. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

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

	Year ended 31/12/2017 *RMB'000*	Year ended 31/12/2016 *RMB'000*
Fee, Salaries and other benefits	**6,014**	5,673
Performance related bonus *(note)*	**272**	263
Retirement benefits schemes contribution	**135**	124
	6,421	6,060

Note:

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

39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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

Name of subsidiary	Principal activities	Place of incorporation establishment/ operations	Issued and fully paid capital/ registered capital		Proportion of ownership interest and voting power held by the Company	
			31/12/2017	31/12/2016	**31/12/2017**	31/12/2016
Directly held						
Huaxu Investment	Investment holding	BVI	**Ordinary Share USD149,089,001**	Ordinary Share USD1	**100%**	100%
Hengshi USA Company Limited	Sales of fiberglass fabrics	USA	**Ordinary Share USD200,000**	Ordinary Share USD200,000	**100%**	100%
Hengshi Hong Kong Company Limited	Sales of fiberglass fabrics	Hong Kong	**Ordinary Share USD500,000**	Ordinary Share USD500,000	**75%**	75%
Indirectly held						
Huajin Capital	Investment holding	Hong Kong	**Ordinary Share USD149,089,100**	Ordinary Share USD100	**100%**	100%
Hengshi Fiberglass *(note a)*	Manufacture and sales of fiberglass fabrics	PRC	**Registered capital USD137,840,000**	Registered capital USD137,840,000	**100%**	100%
Tongxiang Hengxian *(note a)*	Import and export of products and technique	PRC	**Registered capital RMB500,000**	Not applicable	**100%**	100%
Hengshi Egypt	Manufacture and sales of fiberglass fabrics	Egypt	**Ordinary Share USD16,500,000**	Ordinary Share USD4,000,000	**97.88%**	91.25%
Hengshi USA Wind Power Materials Corporation *(note b)*	Manufacture and sales of fiberglass fabrics	USA	**Ordinary Share USD3,500,000**	Not applicable	**100%**	Not applicable

Notes:

(a) Wholly foreign-owned enterprise.

(b) The entity was newly incorporated during the year ended 31 December 2017.

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

40. FINANCIAL INFORMATION OF THE COMPANY

The Company had the following assets and liabilities as at 31 December 2017 and 2016.

	Year ended 31/12/2017	Year ended 31/12/2016
	RMB'000	*RMB'000*
Non-current asset		
Interest in subsidiaries	**1,037,833**	1,065,772
Current asset		
Bank and cash	**805**	1,358
Current liabilities		
Trade and other payables	**–**	6,126
Amount due to a subsidiary	**–**	4,179
	–	10,305
Net current assets (liabilities)	**805**	(8,947)
Total assets less current liability	**1,038,638**	1,056,825
Capital and reserve		
Share capital	**6,207**	6,207
Reserves	**1,028,252**	1,050,618
Total Equity	**1,034,459**	1,056,825
Non-current liability	**4,179**	–
	1,038,638	1,056,825

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

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

	Share premium *RMB'000*	**Other reserve** *RMB'000*	**Retained profits** *RMB'000*	**Total** *RMB'000*
At 1 January 2016	1,021,918	–	29,810	1,051,728
Total comprehensive income for the period	–	–	53,483	53,483
Payment of 2015 final dividends	–	–	(54,593)	(54,593)
At 31 December 2016	1,021,918	–	28,700	1,050,618
Total comprehensive income for the year	–	–	60,967	60,967
Waiver of listing expense previously charged to share premium	5,167	–	–	5,167
Payment of 2016 final dividends	–	–	(88,500)	(88,500)
At 31 December 2017	1,027,085	–	1,167	1,028,252

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2018.