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

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

(Stock code: 1197)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

INTERIM RESULTS HIGHLIGHTS

- The revenue of the Group for the six months ended 30 June 2018 was approximately RMB647.0 million (for the six months ended 30 June 2017: approximately RMB594.0 million), representing a growth of approximately 8.92% as compared with that for the same period last year.

- The gross profit of the Group for the six months ended 30 June 2018 was approximately RMB224.3 million (for the six months ended 30 June 2017: approximately RMB217.7 million), representing an increase of approximately 3.03% as compared with that for the same period last year.

- The profit for the period attributable to the owners of the Company during the six months ended 30 June 2018 was approximately RMB108.7 million (for the six months ended 30 June 2017: approximately RMB104.7 million), representing an increase of approximately 3.82% as compared with that for the same period last year

- The Board did not recommend the payment of interim dividends for the six months ended 30 June 2018 (for the six months ended 30 June 2017: approximately: nil).

The board (the "**Board**") of directors (the "**Directors**") of China Hengshi Foundation Company Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2018 (the "**Review Period**"), together with the comparative figures for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018

		For the six months ended 30 June	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**646,958**	594,004
Cost of sales		**(422,675)**	(376,255)
Gross profit		**224,283**	217,749
Other income	*5*	**9,126**	5,725
Other gains and losses	*6*	**(2,950)**	(6,932)
Distribution and selling expenses		**(52,542)**	(50,326)
Administrative expenses		**(26,690)**	(20,884)
Research and development expenses		**(17,127)**	(16,264)
Other expenses		**(543)**	(811)
Finance costs		**–**	(60)
Profit before tax	*7*	**133,557**	128,197
Income tax expense	*8*	**(23,393)**	(23,095)
Profit for the period		**110,164**	105,102

	Notes	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statement of foreign operations		**(865)**	(1,133)
Total comprehensive income for the period		**109,299**	103,969
Profit for the period attributable to:			
Owners of the Company		**108,702**	104,700
Non-controlling interests		**1,462**	402
		110,164	105,102
Total comprehensive income for the period attributable to:			
Owners of the Company		**107,782**	103,551
Non-controlling interests		**1,517**	418
		109,299	103,969
Earnings per share – basic *(RMB)*	*10*	**0.11**	0.10

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

	Notes	**30/06/2018** *RMB'000* **(Unaudited)**	31/12/2017 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**596,611**	570,425
Prepaid lease payments		**28,869**	29,257
Intangible assets		**1,084**	1,214
Deferred tax assets		**13,490**	14,043
Financial assets at fair value through profit or loss ("**FVTPL**")		**–**	6,321
Deposits paid for acquisition of property, plant and equipment		**73,854**	88,253
		713,908	709,513
CURRENT ASSETS			
Inventories		**172,401**	144,817
Prepaid lease payments		**776**	776
Trade and other receivables	*11*	**463,041**	404,917
Bills receivables	*11*	**151,935**	159,988
Amounts due from related parties	*11*	**6,790**	9,866
Pledged bank deposits		**122,869**	154,354
Bank balances and cash		**220,743**	324,968
		1,138,555	1,199,686
CURRENT LIABILITIES			
Trade and other payables	*12*	**46,481**	191,139
Bills payables	*12*	**123,123**	352,231
Amounts due to related parties	*12*	**296,023**	3,043
Tax payable		**12,268**	16,022
Bank borrowings		**1,323**	–
Financial liabilities at FVTPL		**4,099**	–
Contract liabilities		**2,671**	–
Deferred income – government grants		**300**	300
		486,288	562,735
NET CURRENT ASSETS		**652,267**	636,951
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,366,175**	1,346,464

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Financial liabilities at FVTPL	**3,962**	–
Deferred tax liabilities	**2,594**	9,594
Deferred income – government grants	**1,800**	1,950
	8,356	11,544
NET ASSETS	**1,357,819**	1,334,920
CAPITAL AND RESERVES		
Share capital	**6,207**	6,207
Reserves	**1,348,071**	1,326,689
Equity attributable to owners of the Company	**1,354,278**	1,332,896
Non-controlling interests	**3,541**	2,024
TOTAL EQUITY	**1,357,819**	1,334,920

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

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

2. BASIS OF PREPARATION

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs which are mandatory effective for annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

The new and amendments to IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017 (Audited)	**IFRS 15**	**IFRS 9**	**1 January 2018** (Restated)
NON-CURRENT ASSETS				
Others with no adjustments	709,513	–	–	709,513
CURRENT ASSETS				
Others with no adjustments	1,199,686	–	–	1,199,686
CURRENT LIABILITIES				
Trade and other payables	191,139	(3,666)	–	187,473
Contract liabilities	–	3,666	–	3,666
Others with no adjustments	371,596	–	–	371,596
NET CURRENT ASSETS	636,951	–	–	636,951
TOTAL ASSETS LESS CURRENT LIABILITIES	1,346,464	–	–	1,346,464
NON-CURRENT LIABILITIES				
Others with no adjustments	11,544	–	–	11,544
NET ASSETS	1,334,920	–	–	1,334,920
CAPITAL AND RESERVES				
Others with no adjustments	1,334,920	–	–	1,334,920
TOTAL EQUITY	1,334,920	–	–	1,334,920

4. REVENUE FROM GOODS AND SEGMENT INFORMATION

Disaggregation of revenue

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Types of goods		
Multi-axial fabrics	**405,153**	353,530
Uni-direction fabrics	**194,479**	189,836
Woven roving combo mat	**20,268**	21,213
Stitched mat	**4,549**	2,908
E/PP compofil fabrics	**22,509**	26,517
Total	**646,958**	594,004

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue by products *(note a)*		
Products specified in contracts for wind turbine blade sector	**509,448**	482,740
Others	**137,510**	111,264
Total	**646,958**	594,004
Geographical information *(note b)*		
Overseas markets		
Europe	**172,861**	188,194
North America	**132,330**	152,167
Asia *(note c)*	**39,644**	30,553
Latin America	**17,910**	27,703
Australia	**761**	344
Africa	**310**	342
	363,816	399,303
PRC mainland *(note d)*	**283,142**	194,701
Total	**646,958**	594,004
Timing of revenue recognition		
At a point in time	**646,958**	594,004

Notes:

(a) The analysis of revenue by products is based on contract terms during the period.

(b) The revenue by location is determined based on the location of its immediate customers during the period.

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

(d) PRC mainland excludes Hong Kong, Macau and Taiwan.

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

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

Segment assets and liabilities

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

The Group's information about its non-current assets, excluding deferred tax assets and financial assets at fair value through profit or loss ("**FVTPL**"), by location of assets are detailed below.

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
The PRC mainland	**530,798**	538,139
Egypt	**92,020**	88,625
Other	**77,600**	62,385
Total	**700,418**	689,149

5. OTHER INCOME

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**4,792**	2,242
Scrap sales	**3,634**	2,552
Government grants *(note)*	**700**	790
Sundry income	**–**	81
Rental income	**–**	60
	9,126	5,725

Note:

The government grants represented the unconditional incentive of RMB550,000 (six months ended 30 June 2017: RMB640,000) received from the local government by Zhejiang Hengshi Fiberglass Company Limited and the government grants with conditions amounted RMB150,000 (six months ended 30 June 2017: RMB150,000) released to other income during the period.

6. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Fair value change on financial liabilities measured at FVTPL	**(8,061)**	–
Fair value change on financial assets measured at FVTPL	**(1,556)**	–
Impairment loss recognised in respect of trade receivables and amount due from related parties	**(218)**	(960)
Foreign exchange gain (loss), net	**6,891**	(5,967)
Loss on disposal of property, plant and equipment	**(6)**	(5)
	(2,950)	(6,932)

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total staff costs (including directors' remuneration, other staff cost, and other staff's retirement benefit contribution)	**49,844**	48,264
Capitalised in inventories	**(7,136)**	(6,471)
	42,708	41,793
Release of prepaid lease payments	**388**	388
Amortization of intangible assets	**130**	–
Depreciation of property, plant and equipment	**34,747**	34,096
Total depreciation and amortization	**35,265**	34,484
Capitalised in inventories	**(6,143)**	(6,003)
	29,122	28,481
Allowance for write-downs of inventories (recognised in cost of sales)	**1,150**	1,400

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise Income Tax (the "**EIT**") in the PRC	**15,756**	20,315
Other jurisdictions	**7,154**	1,129
(Over) under provision in prior years in the PRC		
PRC enterprise Income Tax (the "**EIT**")	**(70)**	1,299
	22,840	22,743
Deferred tax charge	**553**	352
	23,393	23,095

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 subsidiaries.

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% according to PRC tax law.

Provision for the PRC Enterprise Income Tax for the period 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.

9. DIVIDENDS

The board of directors of the Company (the "**Board**") does not recommend the payment of interim dividend (six months ended 30 June 2017: nil) for the current interim period.

During the current interim period, the Company has declared a final dividend of HK$0.10677 (equivalent to RMB0.0864) (six months period ended 30 June 2017: HK$0.0989 (equivalent to RMB0.0885)) per share in respect of the year ended 31 December 2017 to the owners of the Company amounting to approximately HK$106,770,000 (equivalent to RMB86,400,000) (six months period ended 30 June 2017: HK$98,937,000 (equivalent to RMB88,500,000)) ,which had been approved by the Company's shareholders in the annual general meeting held on 11 May 2018 and paid during the current interim period.

10. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**108,702**	104,700
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000,000**	1,000,000,000

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

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

(A) Trade and other receivables

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade receivables	**455,536**	411,787
Less: allowance for doubtful debts	**(28,554)**	(33,751)
	426,982	378,036
Prepayments	**8,700**	4,711
Other taxes recoverable	**14,942**	12,231
Deposits	**623**	423
Other receivables *(note)*	**11,794**	9,516
	36,059	26,881
Trade and other receivables	**463,041**	404,917

Note: Other receivables included mainly advances to employees.

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

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**326,610**	243,282
91 to 180 days	**80,154**	107,581
181 days to 1 year	**17,767**	25,895
1 to 2 years	**2,451**	1,278
	426,982	378,036

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for customer. Limits attributed to customers are reviewed annually. In determining the recoverability of the trade receivables, the Group monitors any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date.

(B) Bills receivables

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

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**86,503**	58,728
91 to 180 days	**61,232**	88,994
Over 181 days	**4,200**	12,266
	151,935	159,988

(C) Amounts due from related parties

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade related	**12,205**	9,866
Less: allowance for doubtful debts	**(5,514)**	–
	6,790	9,866

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 periods.

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**6,336**	4,481
91 to 180 days	**268**	218
181 days to 1 year	**186**	200
Over 1 year	**–**	4,967
	6,790	9,866

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

(A) Trade and other payables

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Trade payable	**24,903**	140,321
Advance from customers	**–**	3,666
Other taxes payable	**7,653**	13,096
Payables for purchase of property, plant and equipment	**4,892**	19,777
Transportation cost payable	**2,165**	6,587
Other payables	**6,868**	7,692
Trade and other payables	**46,481**	191,139

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

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**20,559**	139,618
91 to 180 days	**2,286**	551
181 days to 1 year	**1,979**	44
1 to 2 years	**30**	89
Over 2 years	**49**	19
	24,903	140,321

(B) Bills payables

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

	30/06/2018 ***RMB'000*** **(Unaudited)**	31/12/2017 *RMB'000* (Audited)
Within 30 days	**45,733**	142,372
31 to 60 days	**47,404**	32,288
61 to 90 days	**7,275**	30,869
91 to 180 days	**22,711**	146,702
	123,123	352,231

(C) Amounts due to related parties

	30/06/2018 ***RMB'000*** **(Unaudited)**	31/12/2017 *RMB'000* (Audited)
Trade related	**296,023**	3,043

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

	30/06/2018 ***RMB'000*** **(Unaudited)**	31/12/2017 *RMB'000* (Audited)
Within 90 days	**295,403**	3,043
91 to 180 days	**–**	–
181 days to 1 year	**620**	–
	296,023	3,043

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The overseas wind energy market slowdown, and the domestic wind energy market recovered in the first half of 2018. In Europe, 4.5GW of wind energy capacity was added in the first half of 2018 according to the data released by the European Wind Energy Association (in the first half of 2017: 6.1GW). Among which, 3.3GW of the newly onshore installed capacity and 1.1GW of the newly offshore installed capacity were added. In the first half of 2018, over 1.03GW of capacity was newly added in the United States (in the first half of 2017: 2.4GW), with an aggregate wind capacity of over 90GW, according to the data released by the American Wind Energy Association. According to statistics released by the Ministry of New and Renewable Energy in India, 1.4GW of wind energy capacity was newly installed in India (in the first half of 2017: 3.8GW). Benefited from the adjustment of the national policies, the steadily improving situation of wind and electricity curtailment, together with the distributed and offshore wind power capacity increase, the domestic newly-installed wind power capacity was significantly improved in the first half of this year. According to the statistics released by the National Energy Administration of the People's Republic of China (the "**NEA**"), the domestic newly-installed wind power capacity was 7.53GW in the first half of 2018, representing a year-on-year increase of approximately 25.29% (in the first half of 2017: 6.01GW).

In the first half of 2018, we continued upholding our internationalized development strategy, following the concept of customers-oriented to consolidate existing customers and explore new clients proactively. We continued taking technological R&D and innovation as the driving force to maximize the satisfaction of the customized and specialized needs of customers. We continued relying on the management approach of "innovating management with reducing cost and increasing efficiency" to further strengthen our production process control and quality management.

During the Review Period, all businesses of the Group are progressing smoothly with remarkable achievements in customer development and product certification, efficiency enhancement and cost reduction were consolidated, overseas subsidiaries management and internationalized layout were orderly promoted, and corporate image and brand image were improved contemporaneously.

During the Review Period, the Group realized a revenue of RMB647.0 million, representing a year-on-year increase of approximately 8.92%, among which, approximately RMB509.4 million was the sales revenue realized from related products in the wind turbine blades industry, representing a year-on-year increase of 5.53%. The gross profit realized was approximately RMB224.3 million, representing a year-on-year increase of approximately 3.03%. The net profit realized was approximately RMB110.2 million, representing a year-on-year increase of approximately 4.85%, among which, the net profit attributable to the owners of the Company realized was approximately RMB108.7 million, representing a year-on-year increase of approximately 3.82%.

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Multi-axial fabrics	**405,153**	353,530
Uni-direction fabrics	**194,479**	189,836
Woven roving combo mat	**20,268**	21,213
Stitched mat	**4,549**	2,908
E/PP compofil fabrics	**22,509**	26,517
Total	**646,958**	594,004

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Products specified in contracts for wind turbine blade sector	**509,448**	482,740
Others	**137,510**	111,264
Total	**646,958**	594,004

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Overseas markets		
Europe	**172,861**	188,194
North America	**132,330**	152,167
Asia *(note a)*	**39,644**	30,553
Latin America	**17,910**	27,703
Australia	**761**	344
Africa	**310**	342
	363,816	399,303
PRC mainland *(note b)*	**283,142**	194,701
Total	**646,958**	594,004

Notes:

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

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

REVIEWS ON PRINCIPAL ACTIVITIES

1. Business performance

During the Review Period, the Group achieved a revenue of approximately RMB647.0 million, representing a year-on-year increase of approximately 8.92%, among which, our revenue generated from sales to wind turbine blade sector amounted to approximately RMB509.4 million, representing a year-on-year increase of approximately 5.53%. The gross profit was approximately RMB224.3 million, representing a year-on-year increase of approximately 3.03%. The net profit was approximately 110.2 million, representing a year-on-year increase of approximately 4.85%.

2. Sales and marketing

During the Review Period, the Group continued adhering to the marketing mindset of "consolidating existing customers and exploring new clients". On one hand, by fully leveraging on our advantages of the international strategy of global industry layout, and the favorable conditions of close proximity between overseas factories and our customers, we fully utilized our advantages of "supplying the overseas market with overseas plants", and further strengthened and deepened the cooperation relationship with existing customers, so as to stabilize our market share. On the other hand, the Group further enhanced the development of new customers and sub-new customers (that is, customers developed in the recent two years) as well as products certification, realizing a stable growth of orders on hand.

During the Review Period, the Group continued promoting the development of testing and certification of products and customer development. Supported by our strengthened testing capacities, the Group managed passing the testing and certification by 5 new customers, and successfully developed and supplied in bulk 21 new products and 12 models of new turbines. Meanwhile, the testing and certification of E8 high-performance fiberglass fabrics in big-turbine blades and offshore wind power turbine blades had been passed by 3 customers. The bulk supply of E8 fiberglass fabrics to one of these customers has been realized. This has laid a concrete foundation for the Group in penetrating into the high-end market of wind power turbine blades.

3. Production management

During the Review Period, the Group applied the guiding ideology of "innovating management with reducing cost and increasing efficiency" thoroughly and consistently to each and every stages along our operating activities: (i) further reinforcing the establishment of our management system and optimizing our management procedures, to ensure the enforceability and efficiency of our management system; (ii) achieving a control over all production stages and testing subjects through continuous improvements of standardized system to enhance production process control; (iii) introducing product preliminary quality programming and control planning at the stage of product R&D, continuing to implement process modification and technology innovation, and further enhancing product quality and production efficiency.

4. Technology and R&D

Continually enhancing technical R&D and innovation capability is one of the Group's core competitive advantages. During the course of development for more than 10 years in the past, the Group closely followed our operating concept of "market-oriented, customer-centered" to continue to lift up our R&D capabilities. On the one hand, technical R&D personnel actively stay at customers' production enterprises to get in-depth knowledge about customers' demand and capture the latest industrial trends so as to carry diverse applied and prospective researches. On the other hand, a R&D system, combining our self-developed R&D and collaborative R&D was established to satisfy the customized and specialized demand from customers of various niche markets through the combination of technological innovation and product optimization and upgrade, realizing the maximization of customer values.

During the Review Period, the testing center of 浙江恒石纖維基業有限公司 (Zhejiang Hengshi Fiberglass Fabrics Co., Ltd.) has successfully passed the reassessment from the National Accreditation Laboratory under the China National Accreditation Service ("**CNAS**") for conformity assessment, and the number of testing items as accredited by the laboratories of CNAS was increased from 11 to 17, which greatly enlarges our scope of testing capabilities.

With the increasing investment in R&D, the Group proactively protects its core technologies though intellectual property rights application. In recent years, as the number of patents applied by the Group in the PRC has gradually increased, the patent structure is evolving accordingly. During the Review Period, the Group has obtained 9 new patents authorized by the PRC, representing a year-on-year increase of 28%, among which, there were two newly authorized invention patents.

As a leading enterprise in the industry, the Group actively involves in the formulation and revision of national standards on fiberglass fabrics industry. During the Review Period, the Group engaged in drafting and formulating 2 national standards, namely "Standard for Durability of Pulling and Compressing Composites" (複合材料拉－壓疲勞標準) and "Standard for Durability of Bending Composites" (複合材料彎曲疲勞標準).

5. Management of overseas subsidiaries and project construction

The Group continued to uphold the international development strategy to fully unleash the Group's market experience and strong customer base advantages that were accumulated through the Group's long-term profound exploration in international market. The Group orderly promoted the construction of its overseas production base to facilitate the Group's ability in keeping abreast with the market, customers, and providing better products and services for overseas customers.

During the Review Period, the Hengshi Egypt Fiberglass Fabrics S.A.E. ("**Hengshi Egypt**") has effectively carried forward the certification work for the products of internationally-renowned wind turbine and blade manufacturers, as well as the development of non-wind energy market. The Group has been focusing on promoting the establishment of Hengshi Egypt's management system, institutional framework standards, the enhancement of process and techniques, and the management of production and operation, which effectively lifted the standardized management level in our overseas subsidiaries, and substantially increased the production efficiency and production capacity. On the other hand, staff in charge of quality control was redeployed to implement the process control plan. Hengshi Egypt realized a significant increase in the quality management during Review Period.

The installation and testing of equipment relation to the U.S. expansion plan has been completed in April 2018. The conditions for commencing operation have been fulfilled. The various works relating to the U.S. expansion plan such as the establishment of management system, establishment of process and techniques standards and product standards, establishment of control system for product realization process, and staff training are currently being implemented in an orderly manner during the Review Period.

During the Review Period, Hengshi Turkey Fiberglass Industry and Trade (Commerce) Joint Stock Company ("**Hengshi Turkey**") was incorporated in Turkey. The various works relating to the Hengshi Turkey such as the site selection of plant, plant layout, as well as subsequent purchase of equipment and installation and testing are currently being implemented in an orderly manner.

FINANCIAL REVIEW

Revenue

During the Review Period, the revenue of the Group amounted to approximately RMB647.0 million, representing a year-on-year increase of approximately RMB53.0 million or approximately 8.92%. The increase in revenue was primarily attributable to the new turning point of a downturn rebound occurred in the first half of 2018 upon the experience of two-year structural adjustments in domestic wind power market, which has resulted in a substantial year-on-year increase in the newly-installed wind power capacity of 25.29%. With the strong brand recognition and broad domestic customer base, the Group has actively adjusted its sales strategy, and realized a domestic sale revenue of approximately RMB283.1 million, representing a year-on-year increase of approximately RMB88.4 million or approximately 45.40%. Overseas sale revenue amounted to approximately RMB363.8 million, representing a year-on-year drop of approximately RMB35.5 million or 8.89%, mainly due to (i) the correction of newly-installed wind power capacity in overseas wind power market; and (ii) Some overseas customers have shifted their demand to PRC, and their production and demand in PRC's plants have increased accordingly.

Cost of sales

During the Review Period, the cost of sales of the Group amounted to approximately RMB422.7 million, representing a year-on-year increase of approximately RMB46.4 million or approximately 12.33%. The increase in cost of sales was mainly attributable to the increase in sales volume during the Review Period which resulted in the corresponding costs increase including raw materials costs, staff costs, package materials costs and depreciation costs.

Gross profit

During the Review Period, the gross profit of the Group amounted to approximately RMB224.3 million, representing a year-on-year increase of approximately RMB6.6 million or approximately 3.03%. The growth in our gross profit was mainly attributable to: (i) an increase in gross profit as a result of the increase in sales volume during the Review Period; and (ii) the diluted fix expenses led by an increase in corresponding production capacity stimulated by the increase in sales volume during the Review Period.

Other income

During the Review Period, the other income of the Group amounted to approximately RMB9.1 million, representing a year-on-year increase of approximately RMB3.4 million or approximately 59.65%, which was mainly attributable to a year-on-year increase in interest income of approximately RMB2.6 million during the Review Period.

Other gains and losses

During the Review Period, the other losses of the Group amounted to approximately RMB3.0 million, representing a year-on-year decrease of approximately RMB3.9 million or approximately 56.52%. The decrease in other losses was mainly due to the effects of the fluctuations of exchange rate during the Review Period.

Selling and distribution expenses

During the Review Period, the selling and distribution expenses of the Group amounted to approximately RMB52.5 million, representing an increase of approximately RMB2.2 million or approximately 4.37% as compared with that for the same period last year. The selling and distribution expenses accounted for 8.11% of the sales income (30 June 2017: 8.47%). The increase in selling and distribution expenses was mainly attributable to the corresponding increase in sales expenses as a result of the increase of the sales volume during the Review Period.

Administrative expenses

During the Review Period, the total administrative expenses of the Group amounted to approximately RMB26.7 million, representing an increase of approximately RMB5.8 million or approximately 27.75% as compared with that for the same period last year. The increase in administrative expenses was mainly attributable to (i) an increase in management personnel in overseas subsidiaries and an increase in the average salary of management personnel during the Review Period as compared with that for the same period last year; and (ii) an year-on-year increase in the administrative expenses of Hengshi USA Wind Power Materials Corporation during the Review Period.

Research and development expenditure

During the Review Period, the total research and development expenditure of the Group amounted to approximately RMB17.1 million, representing an increase of approximately RMB0.8 million or approximately 4.91% as compared with that for last year, accounting for approximately 2.64% of our revenue (30 June 2017: 2.74%). The main reason for the increase in research and development expenditure is that the Group focused on promoting the research and development of new products for new customers and old customers of wind turbine blades as well as the testing and certification of the new products during the Review Period, which resulted in an increase in the consumption of relevant raw materials, testing and certification expenses and the number of R&D staff.

Profit attributable to the owners of the Company

To sum up the factors mentioned above, for the six months ended 30 June 2018, the profit during the period attributable to the owners of the Company amounted to approximately RMB108.7 million (six months ended 30 June 2017: approximately RMB104.7 million), representing an increase of approximately 3.82% as compared with that for the same period last year.

Liquidity and financial resources

As at 30 June 2018, the Group's non-current assets amounted to approximately RMB713.9 million (31 December 2017: RMB709.5 million). As at 30 June 2018, the Group's current assets amounted to approximately RMB1,138.6 million (31 December 2017: RMB1,199.7 million), including the bank balances and cash of approximately RMB220.7 million as at 30 June 2018 (31 December 2017: RMB325.0 million). As at 30 June 2018, the Group's non-current liabilities and current liabilities amounted to approximately RMB8.4 million and RMB486.3 million (31 December 2017: RMB11.5 million and RMB562.7 million), mainly including the payables incurred in the normal course of business.

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

Gearing ratio

As at 30 June 2018, the Group's gearing ratio (calculated as the total liability divided by total assets multiplied by 100%) was approximately 26.70% (31 December 2017: approximately 30.08%).

Foreign currency risks

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

Capital commitments and contingent liabilities

As at 30 June 2018, the aggregate capital commitments of the Group amounted to approximately RMB50.9 million (31 December 2017: RMB15.7 million), mainly attributable to the capital expenses generated by acquisition of equipment by overseas production base and the balance amounts generated by acquisition of properties. As at 30 June 2018, the Group did not have any material contingent liabilities.

Borrowings and pledge of assets

As at 30 June 2018, the bank borrowings of the Group amounted to approximately RMB1.3 million (31 December 2017: nil), which are the bank borrowings by overseas subsidiaries of the Group.

As at 30 June 2018, the property and plant of the Group with a carrying value of approximately RMB110.6 million (31 December 2017: RMB115.5 million) were pledged to banks to secure borrowings and the grant of financial finance.

Material acquisitions and disposals

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

Employment and remuneration policies

As at 30 June 2018, the Company had 1,277 employees in total (30 June 2017: 1,200 employees). The increase in the number of employees was mainly attributed to the increase in personnel hired for the continuous expansion of the Group's scale in the world and the continuous construction of overseas production bases. The remuneration policy for the employees of the Group was set up by the Board and the remuneration committee of the Company based on their respective experience, qualification and responsibilities. The Group also provides employee benefits, including provident fund, endowment insurance, unemployment insurance, maternity insurance and employment injury insurance, in accordance with applicable PRC laws and regulations.

OUTLOOK

1. Trend of the development of the industry

According to the latest forecast of FTI Consulting, the world's leading business consulting company, promoted by the positive factors such as the revival of the wind power market in China, the downward trend of the global newly-installed wind power capacity will stop in 2018, and the global newly-installed wind power capacity will increase from 58.4GW in 2018 to 74.2GW in 2027 with a compound annual growth rate reaching 3.3%. The cumulative installed capacity of global wind power will reach 1,160GW by the end of 2027.

The domestic wind power market reversed at the bottom, and will enter the cycle of prosperity in the future. On the one hand, along with the continuous improvement of wind and electricity curtailment, the enhancement of wind power equipment's efficiency, the decrease in costs and the improvement of external policies, the yield of wind power farms has effectively increased, and the investment enthusiasm has been bolstered, the wind power market will experience a turnaround in 2018. On the other hand, according to the "Wind Power Development Planning in the Thirteenth Five-Year Plan" (能源發展「十三五」規劃) published by the National Energy Administration, coal power and wind power prices would be equivalent by 2020. Wind power will be an important and integral part of energy structure. The potential of newly-installed wind power capacity will further be unlocked, and enter into a new stage of rapid development.

Capitalizing on the features of stability and high-power electricity generation from sea wind resources, offshore wind power is being developed rapidly across the world. According to latest report released by Bloomberg New Energy Finance, taking into account of the emerging markets like India, the United States, the PRC and Taiwan as well as the recovering European mature market, the annual newly-installed offshore wind power capacity across the world is expected to grow from 4GW in 2018 to 9.5GW in 2030, and the cumulative installed wind power capacity of global wind market will reach 129GW by the end of 2030, with a compound annual growth rate of approximately 16%.

2. Development strategies

Facing the unprecedented opportunity of new energy development and capitalizing its leading position in the industry, the Group will continue consolidating 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 more potential development values. As always, we insist on following the international development direction, further realizing the internationalization of our technology, talents and capital and striving to be the leading manufacturing enterprise of wind power base materials, so as to contributing to the development of new energy industry and delivering great rewards to our shareholders.

3. Operating plans and major targets

Looking ahead to the second half of 2018, it is expected that the overseas markets will continue maintaining a steady growth and our domestic market will continue recovering with the improvement of wind and electricity curtailment and the remarkable surge of distributed wind power and offshore wind power. In the second half of the year, the Group will continue striving for bringing great returns to our shareholders by implementing the following aspects:

(1) Continuing enhancing the R&D and innovation capabilities and developing more new products to meet customers' upgrade and replacement demand

The Group will further enhance technological R&D and innovation capacities, and speed up the promotion of new product development with the support of technology. On one hand, we will enhance the innovation capabilities and strengthen human resource development by the synergies from R&D and production. On the other hand, we will thoroughly understand the customers' demand and technical standards, proactively promote the R&D of new products with new and existing customers so as to meet their upgrade and replacement demand through upgrading products and technical innovation.

(2) Emphasizing the promotion and certification of high modulus products, and capturing the development opportunities of offshore wind power

Going forward, it is expected that the offshore wind power market will be further opened up, and contribute a considerable amount of installed capacity. The Group will continue to seize the favorable timing for the fast development of offshore wind power, with an emphasis on promoting the application of high-performance fiberglass fabrics (E7 and E8 fiberglass fabrics) and customer development. While meeting the bulk demand for high-performance fiberglass fabrics among its regular customers, the Group will enhance its development of new customers and product certification, and raise the proportion of high-performance fiberglass fabrics, so that its product mix aligns with the downstream development trend of the industry, laying a good foundation for the robust growth of the Group's business.

(3) *Continuing improving management system and standard development, strengthening process control, and delivering better quality and efficiency with lower costs*

Carrying on with its working direction set forth in the first half of the year, the Group actively develops its management and standard systems. On one hand, steps will be taken to further improve the standard system to raise its applicability and effectiveness as well as to establish an effective system for production process control. On the other hand, a management system will be developed that support the internationalization strategy, with efforts to design and form a robust quality management structure at the top level, so as to further boost quality management level.

(4) *Continuing reinforcing overseas presence and elevating the management of overseas subsidiaries*

The Group will continue developing its overseas production bases, in an effort to further tap into the scale and synergy brought by the layout of a global industry chain. For the second half of the year, the Group will continue further promoting the production operation and management level of Hengshi Egypt, integrating the culture of Egypt, and creating a management method suitable for Hengshi Egypt, as well as further enhancing Hengshi Egypt's market expansion; continuing carrying out various works for the production base of Hengshi USA as planned; and actively developing the construction works for Hengshi Turkey as planned. With a further extended layout of its overseas production bases, the Group will be able to withstand the negative impact on the business development of the Group from trade frictions and provide its customers with greater products and services.

INTERIM DIVIDEND

The Board has resolved not recommend the payment of any interim dividend for the period of six months ended 30 June 2018 (as at 30 June 2017: Nil).

USE OF NET PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering (the "**Net Proceeds**") received by the Company amounted to approximately RMB400.4 million. Such proceeds have been utilized in accordance with the manners as set out in the prospectus of the Company dated 8 December 2015 (the "**Prospectus**") and the announcement titled "CHANGE IN USE OF PROCEEDS" of the Company dated 19 October 2016 (the "**Announcement**").

Use	**Proposed use of the Net Proceeds stated in the Prospectus and the Announcement** *(RMB Million)*	**Amounts utilized as at 30 June 2018** *(RMB Million)*	**Unutilized balance as at 30 June 2018** *(RMB Million)*
Hengshi Phase IV Expansion Plan	70.2	70.2	0.0
Among which:			
Construction of production facilities	27.3	27.3	0.0
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	400.4	0.0

CORPORATE GOVERNANCE CODE

The Group strives to maintain high standards of corporate governance in order to safeguard the interests of shareholders, and enhance the corporate value and accountability. The Company has adopted the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") as its own code of corporate governance. For the six months ended 30 June 2018, the Company has complied with the code provisions as set out in the CG Code. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the CG Code.

MODEL CODE REGARDING SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions conducted by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules of the Stock Exchange as its own Code of Conduct for securities transactions conducted by relevant Directors. After making specific enquires to all the Directors, each of them has confirmed that they have complied with the required standards set out in the Model Code for the six months ended 30 June 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company for the six months ended 30 June 2018.

REVIEW OF AUDIT COMMITTEE

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

The Audit Committee has adopted the terms of reference which are in line with the CG Code. The major responsibilities of the Audit Committee include reviewing and monitoring the Group's financial control, risk management and internal control systems and procedures, reviewing the Group's financial information and reviewing the relationship with external auditors of the Company. This interim results announcement and the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2018 have been reviewed by the Audit Committee and "Deloitte Touche Tohmatsu", the auditors of the Group.

EVENTS AFTER THE REPORTING PERIOD

From 30 June 2018 till the date of this announcement, the Group has no material events after the reporting period that is required to be disclosed.

PUBLICATION OF INTERIM RESULTS AND 2018 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.chinahengshi.com.cn), while the 2018 Interim Report containing all information required by the Listing Rules will be dispatched to the shareholders and available on the respective website of the Stock Exchange and the Company in due course.

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

Hong Kong, 24 August 2018

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

Non-executive Directors: *Mr. ZHANG Yuqiang (Chairman), Mr. ZHANG Jiankan, Mr. TANG Hsin-hua, Mr. WANG Yuan*

Executive Directors: *Mr. ZHOU Tingcai, Ms. HUANG Junjun*

Independent non-executive Directors: *Mr. XIE Guoping, Mr. LOU Hetong, Mr. ZHAO Jun*