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

2018
INTERIM REPORT

Contents

Corporate Profile

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

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

Corporate Information

BOARD OF DIRECTORS

Non-Executive Director

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

Executive Director

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

Independent Non-Executive Directors

Mr. XIE Guoping (謝國平)
Mr. LOU Hetong (婁賀統)
Mr. ZHAO Jun (趙軍)

AUDIT COMMITTEE

Mr. XIE Guoping (謝國平) *(Chairman)*
Mr. WANG Yuan (王源)
Mr. LOU Hetong (婁賀統)

REMUNERATION COMMITTEE

Mr. XIE Guoping (謝國平) *(Chairman)*
Mr. ZHANG Jiankan (張健侃)
Mr. LOU Hetong (婁賀統)

NOMINATION COMMITTEE

Mr. ZHANG Yuqiang (張毓強) *(Chairman)*
Mr. XIE Guoping (謝國平)
Mr. ZHAO Jun (趙軍)

JOINT COMPANY SECRETARIES

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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KY1-9005
Cayman Islands

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Central, Hong Kong

COMPANY WEBSITE

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STOKE CODE

1197

AUDITOR

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

LEGAL ADVISER

ONC Lawyers
19th Floor,
Three Exchange Square,
8 Connaught Place,
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKS

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

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

LISTING DATE

21 December 2015

Interim Results Highlights

- The revenue of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2018 (the "Review Period") 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 of directors (the "Directors") of the Company (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).

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 *(note a)*	**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 b)*	**39,644**	30,553
Latin America	**17,910**	27,703
Australia	**761**	344
Africa	**310**	342
	363,816	399,303
PRC mainland *(note c)*	**283,142**	194,701
Total	**646,958**	594,004

Notes:

(a) Other 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.

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

(c) 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 (the "Remuneration Committee") 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.

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.

INTERIM DIVIDEND

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

REVIEW OF AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprised two independent non-executive Directors, namely, Mr. Xie Guoping (Chairman of the Audit Committee), 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.

CHANGES OF THE INFORMATION OF DIRECTORS UNDER RULE 13.51B OF THE LISTING RULES

Mr. PAN Fei resigned as an independent non-executive Director, a member of Audi Committee and a member of Remuneration Committee with effect from 6 March 2018.

Mr. CHEN Zhijie resigned as an independent non-executive Director and a member of the nomination committee (the "Nomination Committee") of the Board with effect from 6 March 2018.

Mr. LOU Hetong has appointed as an independent non-executive Director, a member of Audi Committee and a member of Remuneration Committee with effect from 6 March 2018.

Mr. ZHAO Jun has appointed as an independent non-executive Director and a member of the Nomination Committee with effect from 6 March 2018.

Details of the above changes are set out in the announcement of the Company dated 6 March 2018.

Save as disclosed above, as of the dated of the interim report, there were no changes to information which are required to be disclosed by the Directors pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules.

REPURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had repurchased, sold or redeemed any listed securities of the Company for the six months ended 31 December 2018.

USE OF NET PROCEEDS FROM INITIAL PUBLIC OFFERING

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

The table below sets out the use of net proceeds:

Use	**Proposed use of the net proceeds from the initial public offering as stated in the Prospectus and the Announcement** *(RMB million)*	**As of 30 June 2018 Utilized** *(RMB million)*	**As of 30 June 2018 Unutilized balance** *(RMB million)*
Hengshi Phase IV expansion plan,	70.2	70.2	0.0
As to: 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

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

As at 31 December 2018, 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 contained in 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 30 June 2018, 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.

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

As at 30 June 2018, so far as the Directors are aware, the following persons (not being a Director nor chief executive of the Company) who 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 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 30 June 2018, the number of issued Shares of the Company amounted to 1,000,000,000 Shares.

Save as disclosed above, as at 30 June 2018, as far as the Directors are aware, no any other persons (not being a Director nor the chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company 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.

Deloitte.
德勤

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

(incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 60, which comprise the condensed consolidated statement of financial position as of 30 June 2018, and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	NOTES	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (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
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	11	**596,611**	570,425
Prepaid lease payments	12	**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	13	**73,854**	88,253
		713,908	709,513
CURRENT ASSETS			
Inventories		**172,401**	144,817
Prepaid lease payments		**776**	776
Trade and other receivables	14	**463,041**	404,917
Bills receivables	14	**151,935**	159,988
Amounts due from related parties	14	**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	16	**46,481**	191,139
Bills payables	16	**123,123**	352,231
Amounts due to related parties	16	**296,023**	3,043
Tax payable		**12,268**	16,022
Bank borrowings	17	**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

Condensed Consolidated Statement of Financial Position *(Continued)*

At 30 June 2018

	NOTE	30/06/2018 RMB'000 (Unaudited)	31/12/2017 RMB'000 (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	18	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

The condensed consolidated financial statements on pages 23 to 60 were approved and authorised for issue by the board of directors of the Company on 24 August 2018 and are signed on its behalf by:

Mr. ZHANG Yuqiang
Director

Mr. ZHANG Jiankan
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	Share Capital RMB'000	Share Premium RMB'000	Statutory Reserve Surplus RMB'000 (note)	Other Reserve RMB'000	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 2017 (Audited)	6,207	1,021,918	77,893	(105,137)	163,848	88,500	(44,357)	1,208,872	(1,788)	1,207,084
Profit for the period	–	–	–	–	104,700	–	–	104,700	402	105,102
Other comprehensive expense for the period	–	–	–	–	–	–	(1,149)	(1,149)	16	(1,133)
Total comprehensive income (expense) for the period	–	–	–	–	104,700	–	(1,149)	103,551	418	103,969
Payment of final 2016 dividends declared	–	–	–	–	–	(88,500)	–	(88,500)	–	(88,500)
Deemed acquisition of additional interest in a subsidiary	–	–	–	(1,637)	–	–	–	(1,637)	1,637	–
At 30 June 2017 (Unaudited)	6,207	1,021,918	77,893	(106,774)	268,548	–	(45,506)	1,222,286	267	1,222,553
At 1 January 2018 (Audited)	**6,207**	**1,027,085**	**97,169**	**(107,261)**	**272,221**	**86,400**	**(48,925)**	**1,332,896**	**2,024**	**1,334,920**
Profit for the period	**–**	**–**	**–**	**–**	**108,702**	**–**	**–**	**108,702**	**1,462**	**110,164**
Other comprehensive expense for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(920)**	**(920)**	**55**	**(865)**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**–**	**108,702**	**–**	**(920)**	**107,782**	**1,517**	**109,299**
Payment of final 2017 dividends declared	**–**	**–**	**–**	**–**	**–**	**(86,400)**	**–**	**(86,400)**	**–**	**(86,400)**
At 30 June 2018 (Unaudited)	**6,207**	**1,027,085**	**97,169**	**(107,261)**	**380,923**	**–**	**(49,845)**	**1,354,278**	**3,541**	**1,357,819**

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	NOTES	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(1,659)**	115,949
Cash flows from investing activities			
Purchase of property, plant and equipment		**(50,566)**	(46,035)
Deposits paid for acquisition of property, plant and equipment		**(3,854)**	(35,801)
Interest received from bank deposits		**4,792**	2,242
Placement of pledged bank deposits		**(795,900)**	(640,898)
Withdrawal of pledged bank deposits		**827,385**	735,396
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(18,143)**	14,904
Cash flow from financing activities			
New bank borrowings raised		**1,323**	–
Repayment of bank borrowings		**–**	(50,000)
Interest paid		**–**	(60)
Dividend paid		**(86,400)**	(88,500)
Advance from a related party		**–**	695
NET CASH USED IN FINANCING ACTIVITIES		**(85,077)**	(137,865)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(104,879)**	(7,012)
Cash and cash equivalents at the beginning of the period		**324,968**	269,397
Effect of foreign exchange rate changes		**654**	(1,466)
Cash and cash equivalents at the end of the period, represented by bank balances and cash		**220,743**	260,919

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2018

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"), 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 AND KEY SOURCES ESTIMATION UNCERTAINTY

3A. 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, as appropriate.

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.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

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 issued by the IASB which are mandatory effective for the 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 IFRS Standards 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to IFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

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 disclosure as described below.

3.1 Impacts and changes in accounting policies of application on IFRS 15 *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue mainly from manufacture and sales of fiberglass fabrics.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 *Revenue* and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 15

IFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 15 ***Revenue from Contracts with Customers*** *(Continued)*

3.1.1 Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

Under IFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligations is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- The customer simultaneously receive and consumes the benefits provided by the Group's performance as the Group performs;

- The Groups' performance creates and enhances an asset that the customer controls as the Group performs; or

- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Sale of goods
The Group recognizes revenue at a point in time when there is persuasive evidence that the control of the goods has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that effect customer acceptance products.

Product sales represent the sales value of goods.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.1 Impacts and changes in accounting policies of application on IFRS 15 ***Revenue from Contracts with Customers*** *(Continued)*

3.1.2 Summary of effects arising from initial application of IFRS 15

There was no material impact of transition to HKFRS 15 on retained profits at 1 January 2018.

The following adjustments were made to the amounts recognized in the condensed consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under IFRS 15 at 1 January 2018**
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	191,139	(3,666)	187,473
Contract liabilities	–	3,666	3,666

As at 1 January 2018, advances from customers of RMB3,666,000 previously included in trade and other payables were reclassified to contract liabilities.

The following table summarises the impacts of applying IFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported	**Reclassification**	**Amount without application of IFRS15**
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	46,481	2,671	49,152
Contract liabilities	2,671	(2,671)	–

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial instruments* and the related amendments

In the current period, the Group has applied IFRS 9 *Financial Instruments*, Amendments to IFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairments) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement*.

3.2.1 Key changes in accounting polices resulting from application of IFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measure in accordance with IFRS 15.

All recognized financial assets that are within the scope of IFRS 9 are subsequently measure at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principle and interest on the principal amount outstanding.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 ***Financial instruments*** and the related amendments *(Continued)*

3.2.1 Key changes in accounting polices resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets *(Continued)*

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- The contractual terms of financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 Business Combination applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on financial assets and is included in the "other gains and losses" line item.

The director of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded there is no material impact to the reclassification and measurement of the financial assets.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial instruments* and the related amendments *(Continued)*

3.2.1 Key changes in accounting polices resulting from application of IFRS 9 (Continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 including trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits and bank balances. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables, bills receivables and amounts due from related parties. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 ***Financial instruments*** and the related amendments *(Continued)*

3.2.1 Key changes in accounting polices resulting from application of IFRS 9 (Continued)

Impairment under ECL model *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk has increase significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effect.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly.

- an actual or expected significant deterioration in the financial instruments's external or internal credit rating;

- significant deterioration in external market indicators of credit risk e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligation;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 ***Financial instruments*** and the related amendments *(Continued)*

3.2.1 Key changes in accounting polices resulting from application of IFRS 9 (Continued)

<u>Impairment under ECL model</u> *(Continued)*

Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flow that are due to the Group in accordance with the contract and all cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of financial assets unless the financial asset is credit impaired, in which case income is calculated based on amortised cost of the financial asset.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.2 Impacts and changes in accounting policies of application on IFRS 9 *Financial instruments* and the related amendments *(Continued)*

3.2.1 Key changes in accounting polices resulting from application of IFRS 9 (Continued)

Impairment under ECL model *(Continued)*

Measurement and recognition of ECL (Continued)

The Group recognizes an impairment gain or loss for financial instruments by adjusting their carrying amounts, with the exception of the trade receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognised through a loss allowance account.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 and concluded there is no material impact.

3.2.2 Summary of effects arising from initial applications of IFRS 9

The Group applies the IFRS 9 simplified approach to measure ECL, which uses a lifetime ECL, for all trade receivables, bills receivables and amounts due from related parties. To measure the ECL, trade receivables, bills receivables and amounts due from related parties have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits and bank balances and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no significant additional credit loss allowance is required to be recognized against retained profits.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3A. Principal Accounting Policies *(Continued)*

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group'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
TOTAL CURRENT LIABILITIES	562,735	–	–	562,735
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

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in the Group's annual financial statements for the year ended 31 December 2017 and note 3A above, the management is 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 underlying 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.

3. PRINCIPAL ACCOUNTING POLICIES AND KEY SOURCES ESTIMATION UNCERTAINTY *(Continued)*

3B. Critical Accounting Judgments and Key Sources of Estimation Uncertainty *(Continued)*

Key sources of estimation uncertainty

Apart from those disclosed in the 2017 annual report of the Company, the following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months after the end of the reporting period.

Estimated impairment of financial assets

The Group reviews its financial assets to assess impairment on a regular basis. The methodologies and assumptions used for estimating the impairment are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Since the adoption of IFRS 9 and the related amendments on 1 January 2018, the management estimates the amount of credit losses subject to ECL model on trade and other receivables, bills receivables, amounts due from related parties, pledged bank deposits and bank balances. The estimation of the credit risk of the financial assets involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at 30 June 2018, the carrying amount of trade receivables was RMB426,982,000 (net of allowance for doubtful debt of RMB28,554,000) (31 December 2017: RMB378,036,000 (net of allowance for doubtful debt of RMB33,751,000)).

As at 30 June 2018, the carrying amount of amounts due from related parties was RMB6,790,000 (net of allowance for doubtful debt of RMB5,415,000) (31 December 2017: RMB9,866,000 (without allowance for doubtful debt)).

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
Revenue by products *(note a)*		
Products specified in contracts for wind turbine blade sector	**509,448**	482,740
Others *(note b)*	**137,510**	111,264
Total	**646,958**	594,004

4. REVENUE FROM GOODS AND SEGMENT INFORMATION *(Continued)*

Disaggregation of revenue *(Continued)*

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Geographical information *(note c)*		
Overseas markets		
Europe	**172,861**	188,194
North America	**132,330**	152,167
Asia *(note d)*	**39,644**	30,553
Latin America	**17,910**	27,703
Australia	**761**	344
Africa	**310**	342
	363,816	399,303
PRC mainland *(note e)*	**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) Other 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.

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

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

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

4. REVENUE FROM GOODS AND SEGMENT INFORMATION *(Continued)*

Segment Information

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 ***RMB'000*** **(Unaudited)**	31/12/2017 *RMB'000* (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: HK98,937,000 (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. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment (including capital expenditure for construction in progress) of RMB68,819,000 (six months ended 30 June 2017: RMB62,306,000) in order to upgrade its manufacturing capabilities.

12. PREPAID LEASE PAYMENTS

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

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

As at 30 June 2018, the deposits paid for acquisition of property, plant and equipment include prepayment to Zhenshi Holding Group Co., Ltd. ("Zhenshi Group") amounted to RMB70,000,000 (31 December 2017: RMB70,000,000), a related party of the Group for the acquisition of office. The construction of the office is expected to be completed in 2018.

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

(A) Trade and other receivables

	30/06/2018 ***RMB'000*** **(Unaudited)**	31/12/2017 *RMB'000* (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.

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

(A) 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.

	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.

Details of the impairment assessment are set out in note 15.

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

(B) Bills receivables

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

	30/06/2018 *RMB'000* (Unaudited)	31/12/2017 *RMB'000* (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 *RMB'000* (Unaudited)	31/12/2017 *RMB'000* (Audited)
Trade related	12,205	9,866
Less: allowance for doubtful debts	(5,415)	–
	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 *RMB'000* (Unaudited)	31/12/2017 *RMB'000* (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

15. ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODAL

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk and ECL for trade receivables and amounts due from related parties which are assessed collectively based on provision matrix as at 30 June 2018.

	Average loss rate %	Gross carrying amount *RMB'000*	Impairment loss allowance *RMB'000*
Current (not past due)	–	46,838	–
Within 90 days past due	1.00	699	7
91 to 180 days past due	1.09	917	10
181 days to 1 year past due	–	–	–
1 to 2 year past due	100.00	85	85
Over 2 years	100.00	691	691
Total		49,230	793

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the current interim period, the Group provided RMB8,000 impairment allowance based on the provision matrix. In addition debtors with significant balances with carrying amount of RMB418,511,000 as at 30 June 2018 were assessed individually and impairment allowance of RMB210,000 were made on these debtors for the current interim period.

15. ASSESSMENT ON FINANCIAL ASSETS AND OTHER ITEMS SUBJECT TO ECL MODAL *(Continued)*

The movement of allowance for impairment with trade receivables and amount due from related parties are as below.

	For the six months ended 30 June 2018 *RMB'000*
Balance at 1 January 2018*	**33,751**
Amounts written off	**–**
Net remeasurement of loss allowance	**218**
Balance at 30 June 2018	**33,969**

* The Group has initially applied IFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

16. 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

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

(B) Bills payables

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

	30/06/2018 *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

17. BANK BORROWINGS

During the current interim period, the Group obtained RMB1,323,000 (six months ended 30 June 2017: nil) of new bank loans and no repayment of bank loans (six months ended 30 June 2017: RMB50,000,000) was made.

As of 30 June 2018, RMB1,323,000 of the bank borrowings carry interest at the variable market rates, with effective interest rate of 5.50% per annum.

18. SHARE CAPITAL

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

	Number of shares	Amount
		USD
Authorised (at par value of US$0.001 each)		
As at 30 June 2018 and 31 December 2017	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$0.001 each)			
As at 30 June 2018 and 31 December 2017	1,000,000,000	1,000,000	6,207

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at 30/06/18	Fair value as at 31/12/17	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency forward contracts classified as financial assets/liabilities at FVTPL in the condensed consolidated statement of financial position	Liabilities – RMB8,061,000	Assets – RMB6,321,000	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 reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.

20. CAPITAL COMMITMENTS

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

	30/06/2018	31/12/2017
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment and construction in progress		
– Contracted but not provided for	**50,872**	15,733

21. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the condensed consolidated financial statements, the Group had also entered into the following significant related party transactions during periods.

Name of related parties	Relationship	Nature of transactions	For the six months ended 30 June	
			2018	2017
			RMB'000	*RMB'000*
			(Unaudited)	(Unaudited)
Zhenshi Group	note (i)	Sales of finished goods	**102**	22
		Sales of raw material	**11**	–
		Services charges incurred	**153**	–
		Scrap sales earned	**1**	–
		Rental expense	**–**	80
Zhenshi Group (HK) Sinosia Technology	note (i)	Sales of finished goods	**–**	179
Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd# (振石集團浙江宇石國際物流有限公司)	note (i)	Services charges incurred	**24,279**	29,368
Inspirock Hotel Co., LTD.# (振石大酒店有限公司)	note (i)	Services charges incurred	**953**	926
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司)	note (i)	Services charges incurred	**140**	281

21. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related parties	Relationship	Nature of transactions	For the six months ended 30 June	
			2018	2017
			RMB'000	*RMB'000*
			(Unaudited)	(Unaudited)
Tongxiang Kangshi Traditional Chinese and Western Medical Clinic# (桐鄉康石中西醫結合門診有限公司)	note (i)	Services charges incurred	**–**	8
Zhengshi Yongchang Composites Co., Ltd.# (振石永昌複合材料有限公司)	note (i)	Sales of finished goods	**–**	204
Jushi Group Co., Ltd.# (巨石集團有限公司)	note (ii)	Purchase of raw materials	**10,148**	4,731
P-D Jushi Interglas Co., Ltd.# (巨石攀登電子基材有限公司)	note (ii)	Purchase of raw materials	**1,358**	1,154
		Rental expense	**10**	11
Jushi France, SAS	note (ii)	Sales of finished goods	**–**	166
Temax Italia S.R.L.	note (ii)	Sales of finished goods	**85**	187
Jushi India FRP Accessories	note (ii)	Sales of finished goods	**676**	887
Jushi Canada Fiberglass Co., Ltd.	note (ii)	Sales of finished goods	**288**	434
Jushi USA Fiberglass Co., Ltd.	note (ii)	Rental expense	**324**	336
Jushi Japan Co., Ltd.	note (ii)	Sales of finished goods	**45**	434
China Jushi Co., Ltd.# (中國巨石股份有限公司)	note (ii)	Scrap sales earned	**352**	256
		Purchase of raw materials	**275,900**	249,996
Jushi Spain S.A.	note (ii)	Sales of finished goods	**426**	574

21. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related parties	Relationship	Nature of transactions	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Jushi Egypt for Fiberglass industry S.A.E	note (ii)	Purchase of raw materials	**33,402**	8,652
		Rental expense	**–**	75
		Rental income earned	**–**	60
Jushi Group (BZ) Sinosia Compositos Material Co., Ltd.	note (ii)	Sales of finished goods	**3,537**	2,576
Jushi Group (HK) Sinosia Compositos Material Co., Ltd.	note (ii)	Sales of finished goods	**557**	624
Shanghai Tianshi International Logistics Co., Ltd.# (上海天石國際貨運代理有限公司)	note (iii)	Services charges incurred	**21,114**	14,038

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

\# English translated name is for identification purpose only.

Notes:

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

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

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

21. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Salaries and other benefits	**3,144**	3,595
Performance related bonus *(note)*	**143**	138
Retirement benefits schemes contribution	**58**	50
	3,345	3,783

Note:

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

22. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 24 August 2018.