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

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

(Stock code: 1197)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

ANNUAL RESULTS HIGHLIGHTS

	For the year ended 31 December		
	2018	2017	Year-on-Year Change
	RMB'000	*RMB'000*	
Results			
Revenue	**1,458,050**	1,216,593	19.85%
Gross profit	**529,760**	448,659	18.08%
Profit before tax	**317,806**	260,082	22.19%
Profit for the year	**252,754**	215,750	17.15%
Total comprehensive income for the year	**258,984**	211,169	22.64%
Profit for the year attributable to:			
Owners of the Company	**251,784**	214,049	17.63%
Non-controlling interests	**970**	1,701	(42.97)%
	252,754	215,750	17.15%
Total comprehensive income for the year attributable to:			
Owners of the Company	**257,972**	209,481	23.15%
Non-controlling interests	**1,012**	1,688	(40.05)%
	258,984	211,169	22.64%
Earnings per share – basic (RMB)	**0.25**	0.21	19.05%

The board (the "**Board**") of directors (the "**Directors**") of China Hengshi Foundation Company Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "**Group**" or "**we**") for the year ended 31 December 2018 (the "**Reporting Period**"), together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**Year ended 31/12/2018** *RMB'000*	Year ended 31/12/2017 *RMB'000*
Revenue	*3*	**1,458,050**	1,216,593
Cost of sales		**(928,290)**	(767,934)
Gross profit		**529,760**	448,659
Other income	*5*	**20,929**	16,697
Impairment losses, net of reversal		**(4,767)**	(12,500)
Other gains and losses	*6*	**(934)**	(10,962)
Distribution and selling expenses		**(127,109)**	(99,313)
Administrative expenses		**(61,042)**	(47,919)
Research and development expenses		**(37,584)**	(34,020)
Other expenses		**(1,395)**	(500)
Finance costs		**(52)**	(60)
Profit before tax		**317,806**	260,082
Income tax expense	*7*	**(65,052)**	(44,332)
Profit for the year	*8*	**252,754**	215,750
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**6,230**	(4,581)
Total comprehensive income for the year		**258,984**	211,169
Profit for the year attributable to:			
Owners of the Company		**251,784**	214,049
Non-controlling interests		**970**	1,701
		252,754	215,750
Total comprehensive income for the year attributable to:			
Owners of the Company		**257,972**	209,481
Non-controlling interests		**1,012**	1,688
		258,984	211,169
Earnings per share – basic (RMB)	*10*	**0.25**	0.21

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	31/12/2018 RMB'000	31/12/2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**718,901**	570,425
Prepaid lease payments		**28,481**	29,257
Intangible assets		**954**	1,214
Deferred tax assets		**16,470**	14,043
Deposits paid for acquisition of property, plant and equipment		**594**	88,253
Financial assets at fair value through profit or loss ("**FVTPL**")		**–**	6,321
		765,400	709,513
CURRENT ASSETS			
Inventories		**209,630**	144,817
Prepaid lease payments		**776**	776
Trade and other receivables	*11*	**544,309**	404,917
Bills receivables		**223,687**	159,988
Amounts due from related parties		**8,995**	9,866
Financial assets at FVTPL		**2,265**	–
Pledged bank deposits		**203,884**	154,354
Bank balances and cash		**311,279**	324,968
		1,504,825	1,199,686
CURRENT LIABILITIES			
Trade and other payables	*12*	**93,815**	191,139
Bills payables		**384,050**	352,231
Amounts due to related parties		**215,636**	3,043
Tax payable		**30,867**	16,022
Financial liabilities at FVTPL		**15,142**	–
Contract liabilities		**4,038**	–
Deferred income-government grants		**300**	300
		743,848	562,735
NET CURRENT ASSETS		**760,977**	636,951
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,526,377**	1,346,464

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – Continued
At 31 December 2018

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**14,738**	9,594
Deferred income-government grants	**1,650**	1,950
	16,388	11,544
NET ASSETS	**1,509,989**	1,334,920
CAPITAL AND RESERVES		
Share capital	**6,207**	6,207
Reserves	**1,498,261**	1,326,689
Equity attributable to owners of the Company	**1,504,468**	1,332,896
Non-controlling interests	**5,521**	2,024
TOTAL EQUITY	**1,509,989**	1,334,920

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 23 February 2015. The address of the registered office is 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of the principle place of business is No. 288 Phoenix Lake Road, Tongxiang, Zhejiang Province, PRC. The Company was listed on the main board of The Stock Exchange of Hong Kong Limited on 21 December 2015. The directors of the Company consider that the Company's ultimate holding company is Huachen Investment Limited, a company controlled by Mr. ZHANG Yuqiang.

The Company acts as an investment holding company.

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year

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

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 early applied Amendments to IFRS 9 *Prepayment features with Negative Compensation* which will be mandatorily effective for the Group for the financial year beginning on 1 January 2019.

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatment[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs Standards 2015–2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after a date to be determined
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
[5] Effective for annual periods beginning on or after 1 January 2020

3. REVENUE

Disaggregation of revenue from contracts with customers

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Types of goods		
Multi-axial fabrics	**944,694**	777,971
Uni-direction fabrics	**422,748**	343,515
Woven roving combo mat	**34,787**	34,981
Stitched mat	**13,906**	7,836
E/PP compofil fabrics	**41,915**	52,290
Total	**1,458,050**	1,216,593
Geographic Information *(note a)*		
Overseas markets		
Europe	**362,342**	403,692
North America	**216,702**	220,830
Asia *(note b)*	**111,433**	72,379
Latin America	**43,485**	58,176
Australia	**45,429**	1,172
Africa	**2,619**	671
	782,010	756,920
PRC mainland *(note c)*	**676,040**	459,673
Total	**1,458,050**	1,216,593
Timing of revenue recognition		
At a point in time	**1,458,050**	1,216,593

Notes:

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

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

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

4. OPERATING SEGMENT

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, makes decisions based on the consolidated financial statements of the Group prepared in accordance with IFRS about resources allocation and performance assessment.

Segment assets and liabilities

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

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
PRC mainland	**545,446**	538,139
Africa	**97,903**	88,625
North America	**84,068**	62,385
Europe	**21,513**	–
Total	**748,930**	689,149

Revenue from major products

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

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows.

	Year ended	Year ended
	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Customer A	**196,676**	163,968
Customer B	**171,808**	139,020
Customer C	**152,770**	161,337
	521,254	464,325

5. OTHER INCOME

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Interest income on pledge bank deposits and bank balances	**9,145**	5,960
Income on scrap sales	**7,203**	4,890
Government grants	**2,960**	5,765
Rental income	**685**	–
Sundry income	**936**	82
	20,929	16,697

6. OTHER GAINS AND LOSSES

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Loss on disposal of property, plant and equipment	**(234)**	(17)
Fair value change on financial assets measured at FVTPL	**709**	6,321
Fair value change on financial liabilities measured at FVTPL	**(15,142)**	–
Foreign exchange gain (loss), net	**13,733**	(17,266)
	(934)	(10,962)

7. INCOME TAX EXPENSE

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Current tax		
PRC Enterprise Income Tax	**50,667**	44,296
Other jurisdictions	**10,795**	4
	61,462	44,300
Under provision in prior years	**1,035**	1,800
	62,497	46,100
Deferred tax charge (credit)	**2,555**	(1,768)
	65,052	44,332

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting) the following:

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Depreciation of property, plant and equipment	**68,123**	68,502
Amortisation of intangible assets	**260**	87
Release of prepaid lease payments	**776**	776
Total depreciation and amortisation	**69,159**	69,365
Capitalised in inventories	**(9,084)**	(7,056)
	60,075	62,309
Auditors' remuneration	**1,830**	2,056
Directors' emoluments	**6,317**	5,614
Other staff costs	**103,366**	106,038
Retirement benefit schemes contribution for other staff	**4,386**	5,135
Total staff costs	**114,069**	116,787
Capitalised in inventories	**(6,662)**	(6,569)
	107,407	110,218
Allowance for inventories	**–**	1,790
Loss on disposal of property, plant and equipment	**234**	17
Cost of inventories recognised as expenses	**928,290**	767,934
Minimum lease payments under operating leases in respect of rented premises	**2,916**	1,351

9. DIVIDENDS

A final dividend in respect of the year ended 31 December 2018 of RMB0.08855 (2017: RMB0.0864) per share, totaling RMB88,550,000 (2017: RMB86,400,000) has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. EARNINGS PER SHARE

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

	Year ended 31/12/2018	Year ended 31/12/2017
	RMB'000	*RMB'000*
Earnings for the purpose of calculating basic earnings per share (profit for the year attributable to owners of the Company)	**251,784**	214,049

No. of Shares	**31/12/2018**	31/12/2017
	in '000	*in '000*
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000**	1,000,000

11. TRADE AND OTHER RECEIVABLES

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Trade receivables *(note a)*	**551,590**	411,787
Less: Allowance for credit losses	**(33,686)**	(33,751)
	517,904	378,036
Other receivables		
Prepayments	**6,491**	4,711
Other taxes recoverable	**13,534**	12,231
Deposits	**670**	423
Others *(note b)*	**5,710**	9,516
	26,405	26,881
Total trade and other receivables	**544,309**	404,917

Note:

(a) As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB517,904,000 and RMB378,036,000 respectively.

(b) Others included mainly advances to employees for business purpose.

The following is an aged analysis of trade receivables, net of allowance for credit losses, presented based on the invoice date, which approximate the revenue recognition date.

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 90 days	**346,032**	243,282
91 to 180 days	**152,601**	107,581
181 days to 1 year	**19,271**	25,895
1 to 2 years	**–**	1,278
	517,904	378,036

12. TRADE AND OTHER PAYABLES

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Trade payables	**46,949**	140,321
Deposits received from customers	**–**	3,666
Other taxes payable	**19,095**	13,096
Payables for purchase of property, plant and equipment	**9,360**	19,777
Transportation cost payables	**12,667**	6,587
Other payables	**5,744**	7,692
Trade and other payables	**93,815**	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 years.

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 90 days	**45,163**	139,618
91 to 180 days	**938**	551
181 days to 1 year	**415**	44
1 to 2 years	**332**	89
Over 2 year	**101**	19
	46,949	140,321

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Overview and Segment Business Condition

Industry Review

1. *Global industry review*

   According to the statistics on global wind power development in 2018 released by the Global Wind Energy Council, global newly-installed wind power capacity amounted to approximately 51.3GW (2017: 53.2GW), representing a year-on-year decrease of 3.57%. Among all, newly-installed onshore wind power capacity amounted to approximately 46.8GW (2017: 48.7GW), representing a year-on-year decrease of 3.90%; newly-installed offshore wind power capacity amounted to approximately 4.49GW (2017: 4.47GW), representing a year-on-year increase of 0.45%. As of the end of 2018, global cumulative installed wind power capacity reached 591GW.

   The wind power market in America has shown strong growth. In 2018, the newly-installed wind power capacity in America amounted to approximately 11.9GW, representing a year-on-year increase of approximately 12%.

   The European market lacked development momentum. According to the data released by the European Wind Energy Association, the newly-installed wind power capacity in Europe in 2018 amounted to approximately 11.7GW (2017: 17.1GW), representing a year-on-year decrease of 31.58%, with the least newly-installed wind power capacity for the past seven years.

   For the first time, the People's Republic of China ("**PRC**") led the global offshore wind power market. In 2018, the PRC surpassed any other markets for the first time with its 1.8GW offshore newly-installed wind power capacity, while Britain and Germany closely followed behind with their respective 1.3GW and 0.9GW newly-installed wind power capacity.

2. *Domestic industry review*

   (1) Review of major policies

   The development of the industry is of necessity propelled by national policy. To ensure the development objectives set out in the"Wind Power Development under the 13th Five-Year Plan"(《風電發展「十三五」規劃》) to be achieved, National Development and Reform Commission ("**NDRC**") and National Energy Administration ("**NEA**") of the PRC have rolled out various polices in 2018 to persistently strengthen the sustainable and healthy development of the wind power industry while promoting transformations and upgrades in energy structure.

Strengthen the orderly development of renewable energy industry. NEA issued the "Guidance Opinion on Energy Work for 2018"(《2018年能源工作指導意見》) on 26 February 2018, calling for steady development of wind power, restriction on new construction scale in areas with serious wind curtailment, promotion of the construction of distributed wind power, low speed wind power and offshore wind power projects and further the development of the construction of wind power grid parity demonstration projects. At the same time, a new construction scale of approximately 25 million kilowatts was planned during the year with a newly installed wind power capacity of approximately 20 million kilowatts.

Allocate wind power projects through competitive bidding while accelerating the promotion of power grid parity. On 24 May 2018, NEA issued the "Notice on the Requirements of Wind Power Construction Management for 2018" (《關於2018年度風電建設管理有關要求的通知》) to implement the competitive form of wind power projects allocation and to determine the on-grid tariffs for centralized onshore wind power projects and offshore wind power projects. Subsequently, provinces such as Ningxia, Guangdong and Jiangsu have rolled out provisions on competitive bidding for wind power. Allocation of wind power projects through competitive bidding is a transition between benchmarking on-grid tariff and grid parity. It effectively promotes a rapid growth in wind power newly-installed capacity while accelerating the arrival of the era of wind power grid parity.

Advance wind power consumption with multiple initiatives to continuously improve the issue of wind curtailment. On 7 March 2018, NEA issued the"Notice on Issuance of Guidance Opinion on Energy Work for 2018"(《關於印發2018年能源工作指導意見的通知》), calling for restriction on new construction scale in areas with serious wind curtailment while ensuring the decrease in both the wind power electricity curtailment volume and electricity curtailment rate. On 30 October 2018, NDRC and NEA jointly promulgated the "Action Plan on Clean Energy Consumption (2018–2020)"(《清潔能源消納行動計劃(2018-2020年)》), setting out the establishment of a long term mechanism on clean energy with an aim to solve the basic issues on clean energy consumption by 2020 and the national average utilization rate of wind power will reach the international advanced level. According to the data published by NEA, the national wind curtailment was 27.7 billion kilowatt-hours in 2018, representing a decrease of 14.2 billion kilowatt-hours as compared with that of the same period last year, while the wind curtailment rate was 7%, down by 5 percentage points as compared with that of the same period last year. Wind power consumption continued its improvement trend in recent years.

Deepen reform on electricity system and marketization. On 16 July 2018, NDRC and NEA jointly issued the "Notice on Further Promoting the Marketization of Power Market Transactions and Completing Trading Mechanism'(《關於積極推進電力市場化交易，進一步完善交易機制的通知》), calling for the increase in the volume of market-based power trade, promotion of market-oriented transactions between power generation enterprises, improvement of the pricing mechanism of market-based power trade and the firm establishment of a clean energy quota system.

(2) Review of the development of the domestic industry

Owing to the reopening of the "Three North Region" market, the acceleration in offshore wind power development and the competitive bidding policy that facilitated the developers to speed up the project construction progress, the newly-installed wind power capacity of the PRC in 2018 has bounced back significantly after a decline of two consecutive years. According to the statistics released by the Global Wind Energy Council, the newly-installed wind power capacity for the PRC (excluding Taiwan) in 2018 amounted to approximately 23,000MW (2017: 19,500MW), representing a year-on-year increase of approximately 17.95%, accounting for 44.83% of the newly-installed capacity globally and continuing to rank the first across the globe. According to the statistics released by NEA, in 2018, the wind power generation capacity was 366 billion kilowatts in the PRC, representing 5.2% of the total electricity generation and a year-on-year increase of 0.4%. The wind power has been strengthening its position as the PRC's third largest electricity source.

Business Review

During the Reporting Period, the Group recorded revenue of approximately RMB1,458.1 million, representing a year-on-year increase of approximately 19.85%, the gross profit realized was approximately RMB529.8 million, representing a year-on-year increase of approximately 18.07%. The net profit realized was approximately RMB252.8 million, representing a year-on-year increase of approximately 17.15%.

ANALYSIS AND DISCUSSION ON THE RESULTS

Benefitted from the healthy growth of the global wind power industry, particularly the significant recovery of the wind power market in the PRC, the predominant leading position of the Group in the industry and the proper capture of market opportunities by the management, during the Reporting Period, the Group achieved a boost in both production and sales, resulting in a significant outcome of the development of new customers and new products, further expansion of market share, steady progress of the international layout, further strengthened quality management and products quality level, continuous upgrade of production capacity and efficiency, as well as remarkable enhancement in the soft powers of the Company.

1. Production and sales

During the Reporting Period, the Group attained a record high in its revenue and gross profit. Revenue was approximately RMB1,458.1 million, representing a year-on-year increase of approximately 19.85%, the gross profit was approximately RMB529.8 million, representing a year-on-year increase of 18.07%. The net profit realized was approximately RMB252.8 million, representing a year-on-year increase of 17.15%.

2. Market development

During the Reporting Period, the Group continued to uphold the philosophy of "market-oriented, customer-centered", further enhanced the customer maintenance capability and increased its effort on customer development.

On the one hand, by fully leveraging on the advantages of the global industrial layout, and the favorable conditions of close proximity between overseas factories and our customers, as well as the strategy of "supplying the overseas market with overseas plants", the Group further strengthened and deepened the cooperation relationship with existing customers. In the meantime, the Group has established the customer service department during the Reporting Period to build a business chain that covers market, research and development, production, sales and customer service with a view to handling the feedbacks from customers in a timely and effectively manner and solving the customers' problems and improve the satisfaction of customers.

On the other hand, the Group pushed forward the strategy of customer development. Through the collaboration between the wind turbine plant and the turbine blades plant, it further enhanced the development pace and success rate of new customers and sub-new customers (that is, customers developed in the recent two years). During the Reporting Period, the Group successfully secured five new customers from wind energy sector, five new customers from non-wind energy sector, as well as having a total of 109 products passing the testing and certification by customers and available for use in bulks, achieving a stable growth of orders on hand.

During the Reporting Period, the Group continued to actively engage in the promotion and application of high performance fiberglass fabrics (E7 fiberglass fabrics and E8 fiberglass fabrics). By seizing the market opportunities, the Group achieved a year-on-year increase of 32.5% in high performance fiberglass fabrics.

3. Production management and creative optimization

During the Reporting Period, the Group continued to apply the guiding ideology of "innovating management with reducing cost and increasing efficiency" thoroughly and consistently to each and every stage along our operating activities: (i) introducing preliminary quality programming and control planning at the stage of product R&D, developing a comprehensive quality management system that covers R&D quality, raw material quality, process quality, product quality, quality checking and after-sales service quality which has greatly enhanced product quality; (ii) further increasing the efficiency of equipment operation and significantly increasing efficiency and reducing cost by applying the measures such as equipment TPM management, tooling improvement and process modification; (iii) enhancing operation efficiency and reducing production cost effectively through measures such as improving the working practices, merging the positions, streamlining the organization and using recyclable packing.

4. Technical R&D

Since its establishment, the Group persisted in taking product R&D and technical innovation as its core driving force, and kept strengthening and enhancing them. During the Reporting Period, the Group continued to put more efforts in developing new technologies and new products, to combine technical innovation and iterative upgrade of products, so as to maintain the innovation and advancement of the Group's products in wind power sector. In the meantime, the Group paid great attention on the building of talent pool of technical R&D. A talent nurturing system was created during the Reporting Period and the R&D strength was enhanced effectively.

Intellectual property rights are the key to protect innovation, and the Group actively protects its core technology through intellectual property rights. In recent years, as the number of patents applied by the Group has gradually increased, the structure is evolving accordingly with enhancing quality. During the Reporting Period, the Group has obtained 16 patents authorized by the PRC, in which 14 were authorized utility model patents and 2 were authorized invention patents. As at the end of the Reporting Period, the Group has in total 85 patents authorized by the PRC.

During the Reporting Period, Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. ("**Hengshi Fiberglass**") Testing Center (the "**Testing Center**") has successfully passed the reassessment of laboratory accredited by China National Accreditation Service for Conformity Assessment ("**CNAS**"), and the number of testing items accredited by CNAS increased from 11 to 17. The Testing Center has also successfully passed the review of expansion items by DNV GL which is the combined institute of Det Norske Veritas and Germanischer Lloyd, and the number of testing items accredited by DNV GL increased from 13 to 17. The scope of testing capabilities of the Testing Center was greatly enlarged.

During the Reporting Period, Hengshi Fiberglass was jointly certified as the State Class "Single Champion in the Manufacturing Industry" by the Ministry of Industry and Information Technology and China Federation of Industrial Economics, which demonstrates the R&D innovation capability, the production strength and product quality level of the Group in the wind power base materials sector. Being selected as the Single Champion in the Manufacturing Industry would further lead the Group to focus on the R&D innovation, product quality enhancement and brand establishment in the wind energy base materials sector.

During the Reporting Period, Hengshi Fiberglass has successfully passed the review of High and New Technology Enterprise and continued to be accredited as a high and new technology enterprise, which would entitle it a preferential tax rate in respect of high and new technology enterprises in the PRC for three consecutive years starting from 2018.

In addition, the Group also actively engaged in modifying the fiberglass fabrics industry standards in the PRC. During the Reporting Period, the Group has engaged in formulating 3 industry standards altogether, among which, it played a leading role in formulating 1 provincial level industry standard and engaged in drafting and formulating 2 state level industry standards. Its industry influence and brand awareness are constantly elevating.

5. Overseas subsidiaries

During the Reporting Period, the Group continued to uphold the international development strategy. While orderly promoting the construction of its overseas production base, the Group strengthened the management of overseas subsidiaries and built up a global collaborated layout for production capacity, so as to further 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, to facilitate the Group's ability in keeping abreast with the market, customers, and to provide better products and services for overseas customers.

During the Reporting Period, various measures were implemented to focus on promoting the enhancement of the management level and quality control level of Hengshi Egypt Fiberglass Fabrics S.A.E. ("**Hengshi Egypt**"), and to gradually explore and optimize the management system of overseas subsidiaries. While the management level, quality control level and production operation efficiency of Hengshi Egypt were effectively enhanced, the production capacity of Hengshi Egypt was further released. In addition, in order to cope with the unfavorable condition brought by Sino-US trade friction, the Group actively promoted the production transfer to overseas subsidiaries. During the Reporting Period, Hengshi Egypt had passed the testing and certification from top 10 wind turbine and blade manufacturers in the world and realized the bulk supply. The competitive advantages of overseas layout have been widely recognized.

During the Reporting Period, the Group orderly carried out the production base construction of Hengshi Turkey Fiberglass Industry and Trade (Commerce) Joint Stock Company ("**Hengshi Turkey**"). The plant of Hengshi Turkey is undergoing renovation. The procurement and installation of relevant equipment and production preparation have been in full swing. It is expected that the plant would be able to commence operation in the first quarter of 2019. Hengshi Turkey was one of the strategy deployments as the Group insists on carrying out its globalized industrial planning. On the one hand, it could further strengthen the security of supply to the customers in Turkey and neighboring countries and enhance customers' satisfaction and loyalty. On the other hand, it would be conducive to decrease the possible damages brought by Sino-US trade friction.

FINANCIAL REVIEW

Revenue

During the Reporting Period, revenue of the Group amounted to approximately RMB1,458.1 million, representing a year-on-year increase of approximately RMB241.5 million or 19.85%. The increase in revenue was primarily attributable to the domestic wind power market reversed from its bottom in 2018, with an 17.95% year-on-year increase in newly-installed wind power capacity, which was driven by factors such as continuous improvement of wind power curtailment, the restriction lifted in the "Three North Region" and the surge of distributed wind power and offshore wind power. The Group actively utilized the cyclical opportunity of the domestic wind power industry, actively adjusted its products and market structure in response to the market within a short period of time, which realized a domestic sales revenue of approximately RMB676.0 million, representing a year-on-year increase of approximately RMB216.3 million or 47.05%. Meanwhile, although overseas newly-installed wind power capacity experienced a year-on-year decrease of 16.02% in 2018, the Group leveraged its global layout advantages, strong branding influence and customer base assisted to achieve an overseas sale revenue of approximately RMB782.0 million, representing a year-on-year increase of approximately RMB25.1 million or 3.32%.

Cost of sales

During the Reporting Period, cost of sales of the Group amounted to approximately RMB928.3 million, representing a year-on-year increase of approximately RMB160.4 million or 20.89%. The increase in cost of sales was mainly attributable to the increase in sales volume during the Reporting Period which resulted in costs increase including raw material cost, labour cost, depreciation and amortization cost and other production cost.

Gross profit

During the Reporting Period, gross profit of the Group amounted to approximately RMB529.8 million, representing a year-on-year increase of approximately RMB81.1 million or 18.07%, which was mainly attributable to the gross profit growth and diluted fixed expenses brought by the sales volume increase during the Reporting Period.

Other income

During the Reporting Period, other income of the Group amounted to approximately RMB20.9 million, representing a year-on-year increase of approximately RMB4.2 million or 25.15%. The increase in other income was mainly attributable to a year-on-year increase in interest income during the Reporting Period.

Other gains and losses

During the Reporting Period, other losses of the Group amounted to approximately RMB0.9 million, representing a year-on-year decrease of approximately RMB10.1 million or 91.82%. The decrease in other losses was mainly attributable to the depreciation of RMB during the Reporting Period, which increased exchange gain.

Selling and distribution expenses

During the Reporting Period, selling and distribution expenses of the Group amounted to approximately RMB127.1 million, representing a year-on-year increase of approximately RMB27.8 million or 28.00%, accounting for approximately 8.72% of the revenue (2017: 8.16%). The increase in selling and distribution expenses was mainly attributable to: (i) the corresponding increase in transportation expenses as a result of the increase in sales volume during the Reporting Period; and (ii) the year-on-year increase in prices such as transportation expenses.

Administrative expenses

During the Reporting Period, the administrative expenses of the Group amounted to approximately RMB61.0 million, representing a year-on-year increase of approximately RMB13.1 million or 27.35%. The increase in administrative expenses was mainly attributable to (i) an corresponding increase in management personnel and administrative expenses as a result of the production scale expansion of overseas subsidiaries during the Reporting Period; and (ii) an increase in the average salary of management personnel over last year.

Research and development expenditure

During the Reporting Period, the research and development expenditure of the Group amounted to approximately RMB37.6 million, representing a year-on-year increase of approximately RMB3.6 million or 10.59%, accounting for approximately 2.58% of revenue (2017: 2.79%). The increase in research and development expenditure was mainly because (i) the Group continued to enhance the research and development and the testing and certification of new products during the Reporting Period, to fulfill the customization requirements of customers; and (ii) the Group further improved the introduction and cultivation of research and development talents.

Finance costs

During the Reporting Period, the finance costs of the Group amounted to approximately RMB0.1 million, which basically equaled that of 2017.

Income tax expense

During the Reporting Period, income tax expense of the Group amounted to approximately RMB65.1 million, representing an year-on-year increase of approximately RMB20.8 million, which was mainly due to the increase in the profit before tax of the Group.

Profit for the year

Based on the above reasons, profit during the Reporting Period amounted to approximately RMB252.8 million (2017: 215.8 million), representing an year-on-year increase of approximately RMB37.0 million or 17.15%.

Liquidity and financial resources

As at 31 December 2018, non-current assets of the Group amounted to approximately RMB765.4 million (31 December 2017: RMB709.5 million). As at 31 December 2018, current assets of the Group amounted to approximately RMB1,504.8 million (31 December 2017: RMB1,199.7 million), including the cash and cash equivalent balance (inclusive of pledged bank deposits) of approximately RMB515.2 million as at 31 December 2018 (31 December 2017: RMB479.4 million). As at 31 December 2018, non-current liabilities and current liabilities of the Group amounted to approximately RMB16.4 million and RMB743.8 million (31 December 2017: RMB11.5 million and RMB562.7 million), respectively, mainly include payables incurred in the normal course of business.

Inventories

As at 31 December 2018, inventories of the Group amounted to approximately RMB209.6 million, representing a year-on-year increase of approximately RMB64.8 million or 44.75%. The increase in inventories was mainly due to the advance storage of raw and auxiliary materials in preparation for the order delivery demand in 2019.

Trade and other receivables

As at 31 December 2018, trade and other receivables of the Group amounted to approximately RMB544.3 million, representing a year-on-year increase of RMB139.4 million or 34.43%. The increase in trade and other receivables was due to the corresponding increase in customer receivables as a results of the increase in sales volume during the Reporting Period.

Exchange 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, Japanese Yen, etc. The Directors and the management of the Company will continue monitoring relevant exchange rate risks, and adopt appropriate currency hedging measures in a timely manner.

Capital commitments and contingent liabilities

As at 31 December 2018, the capital commitments of the Group amounted to approximately RMB20.6 million (31 December 2017: RMB15.7 million), which was mainly utilized for the construction of Hengshi Turkey project. As at 31 December 2018, the Group did not have any material contingent liabilities.

Borrowings and pledge of assets

As at 31 December 2018, the Group did not have any bank borrowings (31 December 2017: nil).

As at 31 December 2018, the property, plant and equipment and prepaid lease payments of the Group with a carrying value of approximately RMB157.9 million (31 December 2017: RMB115.5 million) were pledged to secure borrowings and obtain financing.

Gearing ratio

As at 31 December 2018, the gearing ratio of the Group (calculated by dividing total liabilities by total assets multiplied by 100%) is approximately 33.49% (31 December 2017: approximately 30.08%).

Material acquisitions and disposals

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

Employment and remuneration policies

As at 31 December 2018, the Group had 1,264 employees in total (31 December 2017: 1,235 employees). The increase in the number of employees was mainly attributed to an increase in personnel hired for the construction of the production base in Turkey. The remuneration policy for the employees of the Group was set up by the Board and the remuneration committee of the Company based on their respective experience, qualification and responsibilities. The Group also provides employee benefits, including provident fund, endowment insurance, unemployment insurance, maternity insurance and employment injury insurance, in accordance with applicable PRC laws and regulations and applicable laws and regulations in other jurisdictions where subsidiaries of the Group are located.

BUSINESS OUTLOOK

i. Development trends of the industry

1 Global development trends of the industry

(1) Developing countries will become a global leader in clean energy

In recent years, majority of the newly-installed capacity and investment of clean energy in the world are flowing towards more emerging market countries. Bloomberg New Energy Finance pointed out in its 2018 Climatescope report that fueled by surging electricity demand, sinking technology costs and further policy developments, developing countries are replacing developed countries as a global leader in clean energy. The International Renewable Energy Agency also pointed out in the World Energy Outlook 2018 that the global energy supply and consumption pattern are undergoing profound changes, and the proportion of emerging economies in global energy demand will rise.

(2) Offshore wind power will become the focus of future growth in global wind power

In the process of seeking more renewable energy globally, the advantages of offshore wind power and its rapid development in recent years make it the future of the wind power industry. MAKE, a world-renowned energy consulting firm, predicts in its "Market Outlook Update: Q4 2018" that the global newly-installed wind power connected grid capacity will reach 680GW in 2018-2027, of which, 40% is offshore wind power, while the offshore wind power newly-installed capacity of the PRC in the next decade will account for about one-third of the total increase in global offshore wind power. At the same time, Europe's success in offshore wind power will also further drive the development of other emerging offshore wind power markets around the world.

(3) Wind turbines accelerate towards megawatt wind turbine

With the continuous improvement of technological innovation and speed, megawatt wind turbine products are favored by the industry, and global wind turbines accelerate towards megawatt wind turbine. The world-renowned energy consulting company, MAKE, pointed out in its Global Wind Turbine Technology Development Trend Report that as the industry is paying closer attention to wind power electricity costs and the increase in developers' demand for a new generation of large wind turbines, more and more impellers, high towers and megawatt wind turbines are rapidly entering the market with new models constantly emerging. The 4-5MW onshore wind turbine model and the 12-15MW offshore wind turbine models are expected to be the next generation mainstream models.

2 Development trends of the domestic industry

(1) From scale growth to high quality development

According to the "Action Plan of Clean Energy Consumption (2018-2020)" (《清潔能源消納行動計劃(2018-2020年)》) issued by NEA, the national average utilization rate of wind power should reach the international advanced level by 2020 (strive to reach about 95%), while the wind curtailment is controlled at a reasonable level (strive to control at around 5%). It is expected that the newly-installed capacity of domestic wind power will continue to expand under the premise of increasing wind power utilization.

(2) Distributed wind power will become an important supplement in the wind power market

Distributed wind power has made remarkable achievements in Europe and the United States, and looks promising in the PRC. The development of distributed wind power in the PRC is gradually warming up, and there is tremendous market potential following breakthroughs in technology, engineering, management and related policies. As a result, the PRC government has introduced a series of policies and plans to promote the development of distributed wind power in recent years. Distributed wind power is expected to become "the next field of hope" for the wind power industry in the PRC.

(3) Wind power industry will be embracing the era of grid-parity

With the development of large-scale wind power and rapid technological advancement, in areas with good resources, low construction costs, and favorable investment and market conditions, the conditions for the parity of the benchmarking on-grid tariff for coal-fired power have been met. At the same time, NDRC and NEA have rolled out a series of policies to promote the development of wind power through the marketization of power market transactions without subsidy. In particular, the introduction of the "Competitive Bidding" policy will further promote the arrival of the era of grid-parity.

ii. 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 energy base materials, so as to contribute to the development of new energy industry and deliver rich returns to our shareholders.

iii. Operating plans and major targets

1 Market

(1) Overseas market

The Group will continue to uphold the mindset of "market-oriented and client-centered". By fully leveraging on the international market resources that the Group has continuously developed and carefully maintained over the years and the overseas subsidiaries' advantages of "supplying the overseas market with overseas plants", the Group aims to provide the overseas customers with better products and services so as to further increase their satisfaction and loyalty; to continue thoroughly expanding the scope of cooperation with new and existing customers and deeply excavating the cooperation space; to actively maintain customers and establish a multi-dimensional communication channel in order to further solidify, strengthen and better the cooperation relationship with new and existing customers; to continue proceeding the Group's global supply chain layout and striving to maintain the Group's position as the top supplier in the overseas market.

(2) Domestic market

We will steadily capitalize the opportunity of the recovery of domestic wind power market, perform timely sales structure adjustment, optimize customer structure and strengthen the control over and prevention of customer credit risk and actively capitalize the development opportunities for offshore wind power and distributed wind power to continually promote the R&D, certification and market development applicable to offshore wind power and fiberglass fabrics in distributed wind power turbine blades. While focusing on the development of wind energy market, we should also take into account the new product development and marketing of non-wind energy composite materials market, so as to foster new profit growth point.

2 ***Overseas subsidiaries***

In 2019, the Group will continue strengthening the guidance and support for operation management and market development of its overseas subsidiaries, and coordinate and manage the procurement and financial arrangements, production organization management, production planning and sales, product quality control and other aspects of its overseas subsidiaries, with an aim to ensure that their production, operation and management are conducted in a smooth and orderly manner.

3 ***Quality***

In 2019, the Group will put energy on the quality management on an on-going basis and continue to reinforce the mindset of "product quality and enterprise credibility as the life of an enterprise" in order to sift the concept of quality compliance to the concept of quality suitability. With the help of the advanced management tools and methods, we will establish quality warning system, improve quality prevention capability, enhance comprehensive quality management and realize sustainable improvement of quality management and product quality level.

4 ***Production***

In 2019, the Group will continue to transform, upgrade and optimize the production facilities and process technologies in order to keep on improving the productivity. The Group will establish information system of the production process to further step up the automation, informationization, intellectualization and refinement level of production management; and attach more emphasis on the management of intangible and indirect cost to achieve lower cost and higher efficiency.

5 ***Product***

In 2019, the Group will continue to optimize product structure, increase the proportion of high value-added products and continue to promote R&D creativity through constantly launching new products with iterative upgrade for the existing ones. We will keep abreast of the development trend of big-turbine, lightness and high megawatts to maintain the competitive advantage of the Group in the wind power field, and actively expand the application of fiberglass fabrics in non-wind energy field to accumulate new forces for sustainable growth of the Group.

FINAL DIVIDENDS

The Board recommends the payment of a final dividend of RMB0.08855 (2017: RMB0.0864) per share for the year ended 31 December 2018, which is subject to the approval by the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting to be held on Thursday, 9 May 2019 (the "**AGM**") and is expected to be distributed on Monday, 27 May 2019 to the Shareholders whose names appeared on the register of members of the Company on Monday, 20 May 2019.

CLOSURE OF REGISTER OF MEMBERS

(i) AGM

In order to determine the identity of Shareholders who are entitled to attend and vote at the AGM, the notice of which will be published and dispatched in due cause, the register of members of the Company will be closed from Monday, 29 April 2019 to Thursday, 9 May 2019, both days inclusive.

In order to be eligible for attending the AGM, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 26 April 2019.

(ii) Distribution of Proposed Final Dividend

In order to determine the identity of Shareholders who are entitled to receive final dividend, the register of members of the Company will be closed from Thursday, 16 May 2019 to Monday, 20 May 2019, both days inclusive. In order to be eligible for receiving final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 15 May 2019.

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. From 1 January 2018 to 31 December 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 from 1 January 2018 to 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REVIEW OF AUDIT COMMITTEE

The audit committee of the Company has reviewed the accounting principles and practices adopted by the Group with the management and external auditors of the Company, and has examined the annual results for the year ended 31 December 2018. Deloitte Touche Tohmatsu, the auditor of the Group, has agreed with the figures in the preliminary announcement of annual results of the Group for the year ended 31 December 2018.

EVENTS AFTER REPORTING PERIOD

The European Commission published a notice on 21 February 2019 to initiate an anti-dumping investigation against glass fiber fabrics originating from the PRC and Egypt, which related to fabrics of woven, and stitched continuous filament glass fiber rovings or yarns. The Company expects that Hengshi Fiberglass and Hengshi Egypt will be considered as export producers under the investigation and hence could be selected and included as samples under the investigation.

If the conclusion of the investigation to be drawn by the European Commission is affirmative or provisional measures are imposed during the investigation, the European Union's import tariff on the product under investigation will be increased, which may have certain effect on the sales, market and profitability of the Group's corresponding products in the European Union in the future.

The Company is taking appropriate and positive measures and seeking legal advice to respond to the anti-dumping investigation initiated by the European Commission. The Company will, according to the progress of the investigation, make further disclosures to shareholders and potential investors in due course. For further details, please refer to the announcement published by the Company on 25 February 2019.

Save as disclosed in this announcement, no material event has occurred since 31 December 2018 (being the last day of the financial reporting year) that would impact the Company.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT FOR THE YEAR 2018 ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

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

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

Hong Kong, 25 March 2019

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

Non-executive Director:	*Mr. ZHANG Yuqiang (Chairman), Mr. ZHANG Jiankan, Mr. TANG Hsin-hua, Mr. WANG Yuan*
Executive Director:	*Mr.ZHOU Tingcai, Ms. HUANG Junjun*
Independent non-executive Directors:	*Mr. XIE Guoping, Mr. LOU Hetong, Mr. ZHAO Jun*