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

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

ANNUAL REPORT 2018

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Corporate Profile

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

We supply 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, which are principally used in the wind power generation sector, and the remaining products are mainly sold to customers in a variety of other industries, including transportation, ship manufacturing, water and oil pipelines, building and construction and sporting goods. In recent years, more than 80% of the revenue of the Company was generated from wind power-related application sectors.

As of now, the Company owns four production bases separately located in Zhejiang of China, Suez of Egypt, South Carolina of the United States (under construction) and Tekirdağ of 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 domestic and overseas markets. Our major customers include well-known wind turbine manufacturers who are the top 10 players in the global wind power industry.

The Company remains committed to its mission of "maintaining and improving our living environment, developing the renewable energy business, providing our customers with solutions to materials, and creating the maximum value to staff, shareholders, customers and stakeholders", the vision of "striving to become the world-leading manufacturer of base materials for the wind power industry" and the core ideology of "conduct, innovation, responsibility, learning and enthusiasm", making continuous progress and improvement to create more value for its shareholders, customers and partners.

Corporate Information

BOARD OF DIRECTORS

Non-Executive Directors

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 Directors

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

HEADQUARTERS

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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COMPANY WEBSITE

www.chinahengshi.com.cn

STOCK CODE

1197

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants
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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
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KY1-9005
Cayman Islands

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
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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., Ltd.
Jiaxing Tongxiang Branch
No. 122 Zhenxing East Road
Tongxiang, Zhejiang Province
PRC

LISTING DATE

21 December 2015

Five-Year Financial and Operating Highlights

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

	Year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Results					
Revenue	**1,458,050**	1,216,593	1,236,439	1,002,901	678,600
Gross profit	**529,760**	448,659	420,721	298,521	190,659
Profit for the year	**252,754**	215,750	252,833	181,492	131,734
Profit for the year attributable to:					
Owners of the Company	**251,784**	214,049	257,787	181,977	131,789
Non-controlling interests	**970**	1,701	(4,954)	(485)	(55)
Basic earnings per share (RMB)	**0.25**	0.21	0.26	0.25	0.21

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities					
Non-current assets	**765,400**	709,513	629,863	589,026	490,653
Current assets	**1,504,825**	1,199,686	967,496	1,100,747	634,326
Total assets	**2,270,225**	1,909,199	1,597,359	1,689,773	1,124,979
Total liabilities	**760,236**	574,279	390,275	638,135	575,070
Total equity	**1,509,989**	1,334,920	1,207,084	1,051,638	549,909

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of China Hengshi, I am pleased to present the annual report of the Company (the "**Annual Report**") for the year ended 31 December 2018 (the "**Reporting Period**").

Global economic recovery sustained its slowdown in 2018, with advanced economies recovering at varying paces and emerging markets under continuous pressure. Meanwhile, the global economy suffered increasingly downward pressure from a series of events such as the China-US trade frictions, the rising sentiment of division within the European Union and major fluctuations of oil prices. By contrast, 2018 marked the 40th anniversary of China's reform and opening up. In response to intricate international and domestic environment, China acted under its overall plan of "stabilising growth, facilitating reform, adjusting structure, benefiting people's livelihood and averting risks". As a result, the Chinese economy made steady progress and maintained moderate to high-speed growth, as the GDP exceeded RMB90 trillion for the first time and registered a year-on-year growth rate of 6.6%. At the same time, the country continued with its supply-side structural reform at a deeper level and committed growing efforts to the reform and opening up, which enabled the national economy to operate within a reasonable range.

Against the backdrop of slower economic growth worldwide, the global wind power industry grew on a steady and positive trajectory in 2018. According to the latest annual data of global clean energy investment released by Bloomberg New Energy Finance (BNEF), the world invested an aggregate of US$128.6 billion in wind power during 2018, representing a year-on-year increase of 3%. In particular, investment in offshore wind power totaled US$25.7 billion, which represented a year-on-year increase of 14%, the second highest in history. Besides, offshore wind power has started to shift from traditional developed markets such as Europe, to the Chinese market. Investment in onshore wind power totaled US$100.8 billion, representing a year-on-year increase of 2%. 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 in 2018 (2017: 53.2GW), representing a year-on-year decrease of 3.57%, with global cumulative installed capacity reaching 591GW.

As a world-leading manufacturer and supplier of fiberglass fabrics used in wind turbine blades, the Group fully utilises its international market resources developed continuously and maintained carefully over the years, drives its growth with technological R&D and innovation, centres on maximising customers' value, and closely caters to the changes in market demand so as to meet the customisation and professional demand from customers to the greatest extent. Benefitting from its advantageous global strategic layout and the management's adequate effort to seize market opportunities, the Group refreshed its results in 2018 with the best record since its listing, recording a revenue of approximately RMB1,458.1 million for the year ended 31 December 2018 which represented a year-on-year increase of approximately 19.85%. The Group also recorded approximately RMB529.8 million in gross profit, representing a year-on-year increase of approximately 18.07%; and recorded a net profit of approximately RMB252.8 million, representing a year-on-year increase of approximately 17.15%. Basic earnings per share amounted to RMB0.25, representing a year-on-year increase of approximately 19.05%.

The Group proceeded with R&D and innovation on products and process technologies, leading to continuous enhancement of its core competitiveness. In 2018, the Group obtained 16 new domestic authorized patents, and was engaged in preparing and revising a number of industrial standards on fiberglass fabrics. Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. ("**Hengshi Fiberglass**"), a wholly-owned subsidiary of the Company, was accredited as a national "Champion Enterprise in Individual Segment of the Manufacturing Industry" (製造業單項冠軍企業).

The Group continued to strengthen its quality system management, with significant efficiency improvement and cost reduction. On the one hand, we applied the "Big Quality" theory during the Reporting Period, by introducing early planning and control programs for product quality. A comprehensive quality management system has also been established that covers the quality of R&D, raw material, process, product, inspection and after-sale service, resulting in significant improvement of product quality. On the other hand, we have effectively boosted our operating efficiency and production cost by measures such as further improving working methods, optimising technical procedures, streamlining organizational structure and promoting recyclable packaging.

The Group continued to enhance the management of overseas subsidiaries and push forward its international layout in an orderly manner, with further expansion of the scale of overseas production bases. During the Reporting Period, the Group placed its emphasis on strengthening and supporting the operations management of Hengshi Egypt Fiberglass Fabrics S.A.E. ("**Hengshi Egypt**"), which substantially lifted its production efficiency and capacity. At the same time, the Group established Hengshi Turkey Fiberglass Industry and Trade (Commerce) Joint Stock Company ("**Hengshi Turkey**") in Turkey, which is expected to be able to commence production in the first quarter of 2019. Hengshi Turkey, as another strategic move of the Group's international drive, can further bolster its ability to secure supply for overseas customers, improve customer satisfaction and loyalty, consolidate and increase the Group's overseas market share, brand influence and internationalization.

The Group remains committed to the concept of "market orientation and customer focus" with innovative customer development and maintenance models. On one hand, the Group advanced its customer development strategy by intensifying its collaboration with customers during the Reporting Period, thus effectively boosting the progress and success rate of customer development. On the other hand, the Group has built a business chain covering market, R&D, manufacturing, sales and customer service to address customer concerns and raise customer satisfaction effectively.

As the bridge between the shareholders and the management of the Company, the Board serves as an essential component of the corporate governance mechanism. Since the listing of the Company, the Board has been enhancing and improving its governance in accordance with the requirements of relevant systems and legal standards, such as the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). With orderly systems, improving governance and a better internal control system, the Group is working to become an excellent listed company.

Technological innovation and cost reduction have rendered wind power one of the renewable energies that boasts the most sophisticated technology, the optimal condition for sizable development and the brightest prospect for commercialization. In particular, offshore wind power is in a trend of accelerating development and will play an important role in global newly-installed capacity for the future. The Group will remain intensively engaged in the fiberglass fabrics used in wind power and proceed with its global industrial layout, with an aim to continuously meet the development demand of the wind power industry and become a world-leading manufacturer of base materials for wind power. Meanwhile, the Group will capture the strategic opportunities brought by the rise of offshore wind power, and sustain its R&D of more large-blade, light and high-modulus fiberglass fabrics that are applicable to offshore wind power, so as to achieve high-quality, sustainable and healthy development.

Last but not least, on behalf of the Group, I would like to express my sincere gratitude to the shareholders, customers and business partners for their consistent trust and support, and to the management team and all the staff of the Group for their diligence, commitment and contribution to the Group's development.

Yours sincerely,

ZHANG Yuqiang
Chairman of the Board

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, 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, 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. 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.

Directors and Senior Management Profile

NON-EXECUTIVE DIRECTORS

ZHANG Yuqiang (張毓強), born in 1955, is the chairman of the Board and a non-executive Director. Mr. ZHANG Yuqiang was appointed as a Director in November 2018 and is primarily responsible for formulating the overall development strategies and business plans of the Group. Mr. ZHANG Yuqiang is also the chairman of the board of directors of Zhenshi Holding Group Co., Ltd. ("**Zhenshi**"), the deputy chairman and general manager of China Jushi Co., Ltd. ("**China Jushi**") (stock code: 600176), a company listed on the Shanghai Stock Exchange, and the chairman and the chief executive officer of Jushi Group Co., Ltd. ("**Jushi Group**"). Mr. ZHANG Yuqiang is also the vice chairman of China Building Materials Federation (中國建築材料聯合會) and China Composites Industry Association (中國複合材料工業協會) as well as the vice chairman of China Fiberglass Industry Association. Mr. ZHANG Yuqiang has over 40 years of working experience in the fiberglass industry. Mr. ZHANG Yuqiang obtained the qualification certificate of senior engineer (professor level) conferred by China National Building Material Group Co., Ltd. (中國建築材料集團公司) in December 2008. Mr. ZHANG Yuqiang has received numerous awards and enjoyed special government allowance from the State Council for his outstanding contribution to the building materials industry. Mr. ZHANG Yuqiang is the father of Mr. ZHANG Jiankan, another non-executive Director.

ZHANG Jiankan (張健侃), born in 1983, is a non-executive Director. Mr. ZHANG Jiankan was appointed as a Director in November 2018 and primarily participates in formulating the strategic development plans of the Group. Mr. ZHANG Jiankan has also been the chairman of the board of directors of Hengshi Fiberglass since September 2013 and the vice president of Zhenshi since January 2016. Mr. ZHANG Jiankan served as the assistant to the president of Zhenshi from January 2009 to December 2015. Mr. Zhang Jiankan acted as a project manager at Beijing Hony Future Investment Advisor Ltd. (北京弘毅遠方投資顧問有限公司) from January 2008 to December 2008. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang, another non-executive Director and the chairman of the Board.

TANG Hsin-hua (唐興華) ("**Mr. TANG**"), born in 1953, is a non-executive Director. Mr. TANG was appointed as a Director in November 2018 and primarily participates in formulating the strategic development plans of the Group. Mr. TANG is also the chairman of the board of directors of Jushi USA Branch (巨石美國公司) and a supervisor of China Jushi. Mr. TANG has also been a director of Hengshi Fiberglass since January 2004. From 1996 to 2003, Mr. TANG acted as the chief executive officer of United Suntech Craft Inc. From 1995 to 2010, Mr. TANG also acted as the chief executive officer of Gibson Enterprises Inc. Mr. TANG obtained a bachelor's degree in urban planning from National Chengchi University (台灣政治大學) in June 1976.

WANG Yuan (王源) ("**Mr. WANG**"), born in 1978, is a non-executive Director. Mr. WANG was appointed as a Director in November 2018 and primarily participates in formulating the strategic development plans of the Group. Mr. WANG has also been the chairman of the board of directors of Zhenshi Group's Indonesian branch since 2011 and the vice president of Zhenshi since 2010. From May 2001 to August 2003, Mr. WANG worked as a project manager at Beijing Hollyhigh International Capital Consulting Co., Ltd. From September 2003 to August 2007, Mr. WANG acted as the deputy minister of the strategic investment department of Jushi Group. From 2007 to 2009, Mr. WANG acted as the assistant to the president of Zhenshi. Mr. WANG obtained a bachelor's degree in economics from Nanjing University of Aeronautics and Astronautics (南京航空航天大學) in Nanjing, the PRC, in June 2000 and a MBA degree from the University of International Business and Economics (對外經濟貿易大學) in Beijing, the PRC, in June 2007.

EXECUTIVE DIRECTORS

ZHOU Tingcai (周廷才) ("**Mr. ZHOU**"), born in 1966, is an executive Director and the general manager. Mr. ZHOU was appointed as a Director in November 2018 and the general manager in November 2014 and is primarily responsible for the overall operations of the Group. Mr. ZHOU joined the Group in November 2014 and has been acting as the general manager ever since. From September 1989 to October 1997, Mr. ZHOU worked as the workshop manager, project manager and project engineer of Lanzhou Plate Glass Factory (蘭州平板玻璃廠). From October 1997 to February 2008, Mr. ZHOU received training and held different positions in various departments of Saint-Gobain China. From February 2008 to July 2008, Mr. ZHOU acted as the deputy general manager of Jushi Group Chengdu Branch (巨石集團成都公司). From August 2008 to November 2014, Mr. ZHOU acted as the deputy general manager and later the general manager of Kunshan Huafeng Composite Material Co., Ltd. (昆山華風複合材料有限公司). Mr. ZHOU then joined Kunshan Huafeng Wind-Power Engineering Co., Ltd. (昆山華風風電科技有限公司) as its deputy general manager and later general manager, responsible for developing and managing the industrial chain from April 2010 to November 2014. Mr. ZHOU obtained a bachelor's degree in material engineering from Wuhan University of Technology (武漢工業大學) in the PRC in June 1989.

HUANG Junjun (黃鈞筠) ("**Ms. HUANG**"), born in 1980, is an executive Director and the deputy general manager. Ms. HUANG was appointed as a Director in November 2018. She had been a deputy manager of Hengshi Fiberglass since 2008 with primary responsibilities in sales and foreign trade, and has become a deputy general manager since January 2014. From July 2003 to October 2004, Ms. HUANG worked as a member of the president's office staff of Jushi Group. From 2004 to 2006, Ms. HUANG was an executive in the general manager's office of Jucheng Real Estate Development Co., Ltd. (巨成置業有限公司). From March 2008 to August 2008, Ms. HUANG worked as a marketing specialist in Jushi Group. From 2010 to 2013, in addition to her responsibilities at Hengshi Fiberglass, Ms. HUANG was also the assistant to the general manager in Zhejiang Meishi New Materials Company Ltd. (浙江美石新材料有限公司). She obtained a bachelor's degree in finance from Hubei University (湖北大學) in Wuhan, the PRC, in June 2003.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

ZHAO Jun (趙軍) ("**Mr. ZHAO**"), born in 1954, is an independent non-executive Director. Mr. ZHAO was appointed as a Director in March 2018 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. ZHAO is an engineer. Mr. ZHAO has been the senior general manager of the development strategy department in Jushi Group Co., Ltd. since 2001 and the supervisor of China Jushi Co., Ltd. (stock code: 600176), a company listed on the Shanghai Stock Exchange, since November 2014. Mr. ZHAO joined the Beijing Fiber Reinforced Plastics Design and Research Institute in 1970 and acted as the director of the Housing and Construction Materials Department in the State Building and Construction Bureau Information Institute in 1983. Mr. ZHAO joined China Building Waterproofing Materials Company in 1995 and has successively served as the Deputy Secretary General of China Building Waterproofing Materials Association, a member of the Expert Committee of China Building Waterproofing Materials Association and a member of the National Chemical Building Materials Expert Committee. Mr. ZHAO won the third prize of scientific and technological progress conferred by the State Building Materials Bureau for his research on modified asphalt waterproof material. Mr. Zhao graduated from Xi'an International Studies University in Xi'an, the PRC, in 1979.

LOU Hetong (婁賀統) ("**Mr. LOU**"), born in 1962, is an independent non-executive Director. Mr. LOU was appointed as a Director in March 2018 and is primarily responsible for supervising and providing independent judgment to the Board. Mr. LOU is an associate professor at Fudan University and a non-practicing member of the Chinese Institute of Certified Public Accountants. Since 1984, Mr. LOU has been teaching in the Accounting Department of Fudan University and now serves as the executive director of the Master of Professional Accounting Program of Fudan University. Mr. LOU has been an independent director of Shangdong Hualu-Hengsheng Chemical Co., Ltd. (山東華魯恒升化工股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600426), since April 2018, an independent director of WuXi AppTec Co. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603259) and the main board of Stock Exchange(stock code: 02359), since March 2017, an independent director of Suzhou Neway Valve Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603699), since January 2016 and an independent director of Shanghai Longyun Advertising Communication Co., Ltd., a company listed on the Shanghai Stock Exchange(stock code: 603729), since November 2014. Mr. LOU had been an independent director of Shanghai Lilong New Media Co., Ltd., with its shares listed on the National Equities Exchange and Quotations (stock code: 833366), from April 2015 to August 2018; and he served as an independent director of Dalian Chenxin Network Technology Co., Ltd. (previously known as Dalian Yi Qiao Sea Cucumber Co., Ltd., stock code: 002447), a company listed on the Shenzhen Stock Exchange, from October 2016 to November 2017. Mr. LOU obtained a bachelor's degree in accounting from Shanghai University of Finance and Economics in Shanghai, the PRC in July 1984 and a doctoral degree in accounting from Fudan University in Shanghai, the PRC in May 2007.

SENIOR MANAGEMENT

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

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

JOINT COMPANY SECRETARIES

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

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

Directors' Report

The Board is pleased to present the director's report and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

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

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 79 of this Annual Report.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 43 to the consolidated financial statements.

FINAL DIVIDENDS

The Board recommends to distribute a final dividend in respect of the year ended 31 December 2018 at RMB0.08855 (2017: RMB0.0864) per share, which is subject to the approval from the shareholders of the Company (the "**Shareholders**") at the forthcoming annual general meeting to be held on 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

In order to determine the identity of Shareholders who are entitled to attend the AGM, 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 documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 26 April 2019.

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

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2018 and a discussion on the Group's future business development are provided in the Management Discussion and Analysis on pages 9 to 20 of this Annual Report. An analysis of the Group's performance during the Reporting Period using financial key performance indicators is provided in the Five-Year Financial and Operating Highlights on page 5 of this Annual Report.

MAJOR RISKS AND UNCERTAINTIES

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

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH LAWS AND REGULATIONS

The Company was established in the Cayman Islands with its principal business conducted in regions such as the PRC, Egypt, United States and Turkey and the shares of the Company (the "**Shares**") are listed on the Stock Exchange. Therefore, our establishment and operation are subject to relevant laws in the Cayman Islands, the PRC mainland, Egypt, United States, Turkey and Hong Kong. For the year ended 31 December 2018 and up to the date of this Annual Report, we complied with relevant laws and regulations in Cayman Islands, the PRC mainland, Egypt, United States, Turkey and Hong Kong. For the compliance with laws and regulations and performance of the Company, please refer to the section headed "Environmental, Social and Governance Report" in this Annual Report.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

The Group has a good relationship with its customers. To perfect our services, the Group sets up a customer service department to handle client's feedback and solve their tough problems in a more timely and effective manner, thereby enhancing clients' satisfaction.

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

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

FINANCIAL SUMMARY/FINANCIAL REVIEW

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

PRINCIPAL CUSTOMERS AND SUPPLIERS

The transaction amount of the Company for the top five customers for the year 2018 accounted for 50.62% of the operating revenue of the Company for the year 2018, among which, the transaction amount of the single largest customer accounted for 13.49% of the operating revenue of the Company for the year 2018.

The transaction amount of the top five suppliers of the Company for the year 2018 accounted for 87.30% of the procurement amount of the Company for the year 2018. The transaction amount of the single largest supplier of the Company accounted for 76.03% of the procurement amount of the Company for the year 2018.

China Jushi and its subsidiaries ("**China Jushi Group**") and Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd. ("**Yushi International**") are two of the top five suppliers of the Company. As at 31 December 2018, Zhenshi held 15.59% equity interests in China Jushi and Mr. Zhang Yuqiang, the chairman of the Board, non-executive Director and substantial Shareholder, held 70.28% equity interests in Zhenshi. Mr. Zhang Yuqiang was the vice chairman and general manager of China Jushi. Mr. Zhang Jiankan, the non-executive Director, indirectly held 25.23% equity interests in Zhenshi through Tongxiang Wushi Trading Company Limited.

Yushi International is a subsidiary of Zhenshi.

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

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

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group for the year ended 31 December 2018 are set out in note 18 to the consolidated financial statements of this Annual Report.

SHARE CAPITAL

Details of changes in the share capital of the Company during the Reporting Period are set out in note 34 to the consolidated financial statements of this Annual Report. For the year ended 31 December 2018, there was no issuance of new Shares or bonds by the Company.

RESERVE AND DISTRIBUTABLE RESERVE

Details of changes in the reserve of the Group for the year 2018 are set out in note 45 to the consolidated financial statements and the consolidated statement of changes in equity on pages 82 to 84, respectively, among which, the information on reserve distributable to Shareholders in 2018 is set out in note 45 to the consolidated financial statements.

DIRECTORS

For the year ended 31 December 2018 and up to the date of this Annual Report, the Board comprised the following Directors:

Non-executive Directors

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

Executive Directors

Mr. Zhou Tingcai
Ms. Huang Junjun

Independent non-executive Directors

Mr. Xie Guoping
Mr. Lou Hetong
Mr. Zhao Jun

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation from each of its independent non-executive Directors for their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that each of such Directors is independent throughout the year ended 31 December 2018.

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

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

Details of the remuneration of Directors and five individuals of the Group with highest emoluments for the year ended 31 December 2018 are set out in notes 14 and 15 to the consolidated financial statements.

SERVICE CONTRACTS AND APPOINTMENT LETTERS OF DIRECTORS

Each of the executive Directors and non-executive Directors has entered into a service contract with the Company with a term of three years commencing from November 2018 which may be terminated according to the respective terms of the service contracts.

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

None of the Directors has entered into a service contract with any members of the Group which is determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SUBSTANTIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this Annual Report, none of the Directors directly or indirectly held any material interests in other substantial transactions, arrangements or contracts of the Company or any of its subsidiaries as at 31 December 2018 or any time during the year. The Company did not provide any loans to any Directors or senior management of the Company during the year.

COMPLIANCE OF NON-COMPETITION AGREEMENT

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

Independent non-executive Directors have reviewed and confirmed that the Controlling Shareholder complied with the non-competition agreement and performed the non-competition agreement in accordance with its terms during the year ended 31 December 2018 and up to the date of this Annual Report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2018, none of the Directors or their close associates held any interests in any business which directly or indirectly competes or may compete with the business of the Group.

RETIREMENT AND EMPLOYEES BENEFIT SCHEME

Details of retirement and employees benefit scheme of the Group are set out in note 40 to the consolidated financial statements.

PRE-EMPTIVE RIGHT

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

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

As at 31 December 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules were as follows:

(i) Interests in the Company

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

Notes:

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

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

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

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

(5) As at 31 December 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.

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (a) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) recorded in the register maintained pursuant to section 352 of the SFO; or (c) notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2018, so far as the Directors are aware, the following persons (not being a Director nor chief executive of the Company) or corporations who/which had or were deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO were as follows:

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

Notes:

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

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

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

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

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

(6) As at 31 December 2018, the number of issued Shares of the Company amounted to 1,000,000,000 Shares.

Save as disclosed above, as at 31 December 2018, as far as the Directors are aware, no any persons (not being a Director nor the chief executive of the Company) or corporations who/which had or were deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or were required to be recorded in the register kept by the Company pursuant to section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

REPURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

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

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, details of certain transactions entered into between the Company and parties deemed as "connected parties" in accordance with applicable accounting principles are disclosed in note 42 to the consolidated financial statements in this Annual Report. According to the requirements of Chapter 14A of the Listing Rules, one of the transactions constituted a connected transaction and two of the transactions constituted continuing connected transactions under the Listing Rules, which shall comply with the requirements of the Listing Rules and be disclosed in this Annual Report. Details of these connected transactions and continuing connected transactions are set out as follows:

CONNECTED TRANSACTIONS

(i) Acquisition of a property

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

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

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

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

CONTINUING CONNECTED TRANSACTIONS

(i) Purchase of logistics services

The Company and Yushi International entered into a framework agreement dated 29 December 2017 ("**Yushi International Framework Agreement 2018**") and a framework agreement dated 19 March 2018 ("**Yushi International Framework Agreement 2019-2020**"), pursuant to which, Yushi International has agreed to provide the Company with logistics services, including (1) the transportation of the fiberglass purchased by the Company from China Jushi to the production plants of the Company; (2) the provision of export agency services to the Company, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Company for its customers overseas; and (3) the provision of import agency services to the Company, including customs declaration and domestic transportation, in respect of imported raw materials, by Yushi International.

Yushi International, a subsidiary of Zhenshi (Mr. Zhang Yuqiang owned as to 70.28% of equity interests of its registered capital) is an associate of Mr. Zhang Yuqiang, who is the Company's chairman, non-executive Director and ultimate Controlling Shareholder, and hence, a connected person of the Company. Yushi International Framework Agreement 2018 and Yushi International Framework Agreement 2019-2020 constitute continuing connected transactions of the Company.

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

For the year ended 31 December 2018, the total amount paid or payable to Yushi International for logistics services by the Company was approximately RMB59.8 million, which did not exceed the annual cap of RMB61.4 million of the transaction.

(ii) Purchase of export agent services

The Company and Shanghai Tianshi entered into a framework agreement dated 29 December 2017 ("**Tianshi Framework Agreement 2018**") and a framework agreement dated 19 March 2018 ("**Tianshi International Framework Agreement 2019-2020**"), pursuant to which, Shanghai Tianshi agreed to provide export agent services to the Company for exporting its fiberglass fabric products to its overseas customers, including services such as freight booking and customs clearance.

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

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

The total amount paid or payable to Shanghai Tianshi for export agency services by the Company for the year ended 31 December 2018 was approximately RMB34.0 million, which did not exceed the annual cap of the transaction of RMB40.9 million

In accordance with relevant work conducted, our auditors have reported to the Audit Committee and confirmed that for the year ended 31 December 2018, the continuing connected transactions disclosed above:

(a) have been approved by the Board;

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

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

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

Independent non-executive Directors have reviewed the continuing connected transactions, and confirmed that for the year ended 31 December 2018, the transactions:

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

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

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

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

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

Saved as disclosed above, the related party transactions disclosed in note 42 to financial statements of this Annual Report were the connected transactions exempted from the requirements of reporting, announcements and shareholders' approval under Chapter 14A of the Listing Rules.

RELATED PARTY TRANSACTIONS

As at 31 December 2018, Zhenshi (Mr. Zhang Yuqiang owned as to 70.28% of equity interests of its registered capital) held 15.59% equity interests in China Jushi. Our chairman of the Board, non-executive Director and ultimate Controlling Shareholder, Mr. Zhang Yuqiang, is also the deputy chairman and general manager of China Jushi. In addition, as at 31 December 2018, one director and one senior management member of China Jushi owned, in aggregate, less than 0.42% equity interest in our Company. Save as disclosed above, none of China Jushi's directors, supervisors and senior management members was a Director or senior management member of the Company, nor held any equity interest in the Company. Based on the above, according to the undertakings made by the Company in the Prospectus upon the listing of the Company, this Annual Report will continue to announce the transactions with China Jushi Group as follows:

As disclosed in "Prospectus", "2015 annual report", "2016 annual report" and "2017 annual report" issued by the Company on 8 December 2015, 14 April 2016, 6 April 2017 and 11 April 2018, respectively, and given the long-term stable cooperative and complementary relationship between the Group and China Jushi Group, the long-term and stable quality and the good reputation of the raw materials such as fiberglass threads supplied by China Jushi Group and the cost advantage obtained by the Group in purchasing raw materials from China Jushi Group, the Company has entered into a strategic cooperation agreement with Jushi Group on 1 January 2015 to guarantee the long-term and stable supply of fiberglass by China Jushi Group to the Company. The term of the agreement is three years from 1 January 2015 to 31 December 2017. The Company has renewed the strategic cooperation agreement with Jushi Group on 29 June 2017, and the term of the agreement is three years from 1 January 2018 to 31 December 2020.

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

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

For the year ended 31 December 2018, the purchase of fiberglass from China Jushi Group by the Group amounted to approximately RMB723.7 million in total, and the total amount of the finished goods sold by the Group to China Jushi Group was approximately RMB11.3 million.

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

(a) have been approved by the Board;

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

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

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

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

In accordance with relevant work conducted, our auditors have reported and confirmed to the Board that, for the year ended 31 December 2018, the transactions entered into by the Group and China Jushi and its respective subsidiaries with the annual transaction amount exceeding HK$1 million:

(a) have been approved by the Board;

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

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

EQUITY-LINKED AGREEMENT

No equity-linked agreements were entered into by the Company during the year ended 31 December 2018.

TAX RELIEF

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

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

MANAGEMENT CONTRACT

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

PERMITTED INDEMNITY PROVISION

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

DONATION

Save for the disclosure in the section headed "Environmental, Social and Governance Report" in this Annual Report, the Company did not contribute charitable and other donations during the year ended 31 December 2018.

PUBLIC FLOAT

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

MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2018, the Company has not been involved in any material litigation or arbitration, and as far as the Directors are aware, no litigations or claims of material importance is pending or threatened against the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee has also reviewed the financial statements, annual results announcement and the Annual Report of the Company for the year ended 31 December 2018.

MODEL CODE REGARDING SECURITIES TRANSACTIONS CONDUCTED BY DIRECTORS

The Company has adopted the Model Code as the code of conduct regarding securities transactions conducted by Directors. After making specific enquires to all Directors, all of them have confirmed that they have complied with all of the requirements set out in the Model Code for the year ended 31 December 2018.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. For the year ended 31 December 2018, the Company has complied with the code provisions under the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Listing Rules. Details of the CG Code adopted by the Company are set out in the "Corporate Governance Report" on page 60 to 73 of this Annual Report.

AUDITOR

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

EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in this Annual Report, since 31 December 2018 (being the end date of the financial year under report), no significant events have occurred which would have an impact on the Company.

By order of the Board
Zhang Yuqiang
Chairman of the Board

Hong Kong: 25 March 2019

Environmental, Social and Governance Report

Human society has gone through thousands of years of development from agricultural civilization to industrial civilization along with the cultural advancement and rapid productivity development. We always maintain a coordinated and harmonious relationship among human, nature and society no matter at what stage. Human cannot survive without natural environment and resources; human society cannot exist without human; and human cannot be who we are without a society. Among them, only the environment provides resources without expectation for return. Thus, human and society rely on the environment. The only way for human sustainable development is to protect the environment and govern the society. Enterprises are highly-efficient organizations of human society development at current stage. They rely on nature and society, and in return, have significant influence on them. As a manufacturing enterprise of fiberglass fabrics at the front-end of wind power industry chain, the Group has always taken "conservation and improvement of the living environment, development of renewable energy undertakings and creation of maximum value for employees, Shareholders, clients and stakeholders" as its mission, and has been committed to becoming "a global leader in fiberglass fabrics for wind turbine blades".

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

This report, covering all operating businesses of the Group, aims at reflecting the actions and performance of the Group in proactively fulfilling its social responsibilities in respect of environmental protection, working environment, operating practices and community participation in 2018.

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

STAKEHOLDERS

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

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

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

ENVIRONMENT

The Group always sticks to the development principle of "Lucid waters and lush mountains are invaluable assets" proposed by President Xi Jinping and the "Four Not Principles" – are not at the expense of environmental pollution, not at the expense of endangering employees' safety and health, not at the expense of stepping beyond the laws and regulations, and not at the expense of wasting resources and damaging the ecology. In strict compliance with the various local laws and regulations where its production and operation locate, the Group insists on fully promoting the green growth and green development of the enterprise by adhering to the concept of green business, continuously improving the management system of environmental protection and energy saving and emission reducing as well as increasing its investment in energy saving and environmental protection.

EMISSION

Impacts on water quality and measures to reduce the impacts

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

Impacts on air and measures to reduce the impacts

There is no waste gas in the production process of the Group, except the cooking fumes produced during the food processing in the employees' canteen of Hengshi as well as exhaust gas emissions from official business vehicles and aviation due to the employees' business trips.

In order to reduce the exhaust emission, the Group has installed smoke electrostatic purification devices in the canteen, which is able to treat the smoke and fume exhaust in the canteen so that they can meet the medium standard (the number of standard stoves is 4) in Emission Standard of Cooking Fume in Food Industry (Trial) (《食品業油煙排放標準（試行）》) (GB18483-2001). Therefore, the exhaust emission has minimal impact on the surrounding atmospheric environment.

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

Emission Data of Official Business Vehicles

	2018	2017
Mileage (km)	172,529.0	101,525.0
Gasoline consumption (l)	20,629.4	15,228.8
Nitrogen oxide emissions[1] (kg)	152.7	89.8
Sulfur dioxide emissions[1] (kg)	0.3	0.22
Particulates emissions[2] (kg)	14.6	8.6

1. Nitrogen oxides and sulfur dioxide emissions are calculated based on the emission factor from EMFAC-HK Vehicle Emission Calculation of Hong Kong Environmental Protection Department; and

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

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

Greenhouse Gas Emissions[1] Data

Total greenhouse gas[2] emissions (Scope 1 and 2) (ton)	8,881.9
Total greenhouse gas emissions per square meter of floor area (Scope 1 and 2) (ton/sq m)	0.05
Total greenhouse gas emissions per employee (Scope 1 and 2) (ton/employee)	7.03
Total greenhouse gas emissions (Scope 1, 2 and 3) (ton)	8,989.1
Total greenhouse gas emissions per square meter of floor area (Scope 1, 2 and 3) (ton/sq m)	0.05
Total greenhouse gas emissions per employee (Scope 1, 2 and 3) (ton/employee)	7.11
Direct emissions[3] (Scope 1) (ton)	55.84
Gasoline[4]	55.84
Indirect emissions (Scope 2) (ton)	8,826.08
Electricity	11,950.59
Greenhouse gas emission reduction from photovoltaic power generation[5]	3,124.51
Indirect emission (Scope 3) (ton)	107.41
Business trips by planes[6]	41.21
Paper consumption[7] (ton)	10.27
Greenhouse gas emissions from power consumption in tap water plant for processing tap water (ton)	26.76
Greenhouse gas emissions from power consumption in wastewater treatment plant for processing wastewater from the Group (ton)	29.17

1. Related data of Hengshi Egypt has been included in the scope of this study;
2. Substantially all of the Group's greenhouse gas emissions are from indirect emissions, in which the greenhouse gas emitted from electricity (converted from fossil fuel combustion) in the production and operation accounts for a larger proportion;
3. All of them are gasoline consumed by official business vehicles of the Group, and all the transport facilities used in the Group's plants are electric-driven equipment;
4. In addition, as the Group's employee canteen consumed a small amount of natural gas as fuel, its greenhouse gas emission is relatively low. Thus, it is excluded from the statistics;
5. Please refer to the section headed "Energy Consumption" in this report for the electricity from photovoltaic power generation;
6. Emissions data from business trips by planes is calculated primarily based on the carbon emissions calculator of International Civil Aviation Organization;
7. Paper consumption refers to the office paper consumption of the Group, excluding packaging paper.

Impact of solid waste and measures to reduce the impact

The solid wastes produced in the production and operation of the Group mainly comprise of wasted silk, scraps and staff's domestic waste. Among which, wasted silk and scraps are collected by the Group for reuse or selling to third parties for reuse. While staff's domestic waste is regularly cleaned and transported and collectively disposed by the municipal sanitation department after being collected by the Group. During the Reporting Period, the Group had generated a total of 9,465.7 tons of wasted silk and scraps, all of which were sold to third parties for reuse. Since the Group's solid wastes can be re-used or collected for effective disposal, the impact on the surrounding environment is insignificant.

USAGE OF RESOURCES

Energy consumption

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

Energy Consumption Data

Total energy consumption (ton standard coal)	1,395.08
Total energy consumption per square meter of floor area (ton standard coal/sq m)	0.008
Total energy consumption per employee (ton standard coal/employee)	1.104
Direct energy consumption (ton standard coal)	22.01
Gasoline (litre)	20,629.35
Indirect emissions (ton standard coal)	1,373.07
Total electricity consumption (kWh)	15,127,333.30
Photovoltaic systems (kWh)	3,955,080.70
Energy consumption expenditure (RMB0'000)	784.67

Water consumption

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

Water Consumption Data

Total water consumption (ton)	112,912
Total water consumption per square meter of floor area (ton)	0.67
Total energy consumption per employee (ton/employee)	89.33
Total water consumption expenditure (RMB0'000)	295,441.75

Package materials

Package Materials Data

Total amount of package materials for finished goods (RMB million)	59.09
Amount of tray (RMB million)	21.45
Amount of paper strew (RMB million)	11.87
Amount of paper box (RMB million)	13.36
Other package materials (RMB million)	18.16

Investments in and measures for environmental protection and energy facilities

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

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

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

- Introduction of photovoltaic power generation system, installation of solar panels on the ceiling of the workshop to generate photovoltaic power amounted to 3,955,080.70 kWh every year directly available for use in production and reduce energy consumption;

Photovoltaic power generation system

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

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

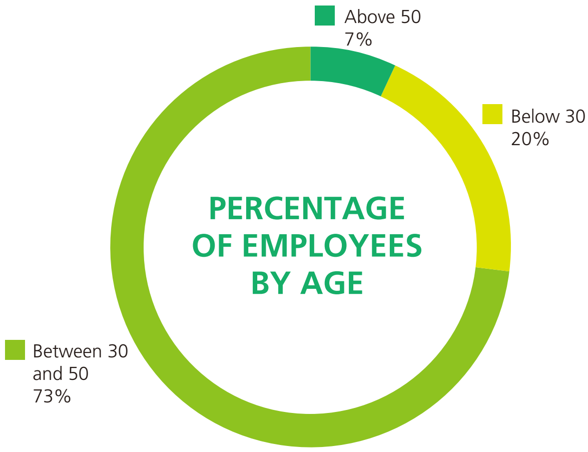
- Enhance publicity and training to promote the concept of energy saving and environmental protection through various channels such as the Company's website, slogans, warnings and billboard. Through posting up slogans such as "Save Electricity" next to the switches of lights and air-conditioners in the meeting rooms and offices and "Save Water" next to the taps, to remind employees to save electricity and water and cultivate good habits of energy saving.

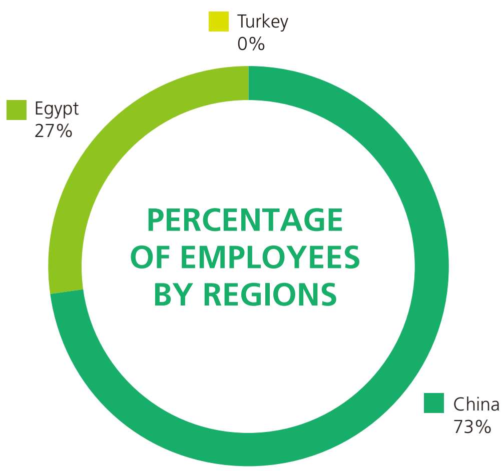
Working conditions and labor standards

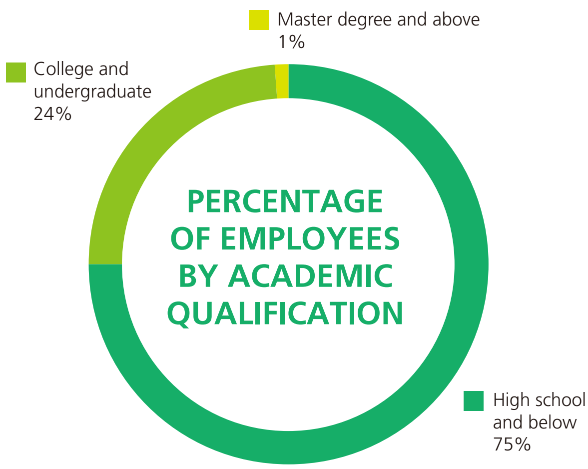
Employees are the cornerstone and impetus of enterprise's production and development. The Group always strives to create a harmonious, comfortable and safe working environment by respecting employees' wishes, clarifying employment forms, advocating free choice of occupation, safeguarding employees' legal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

EMPLOYMENT

As at 31 December 2018, the Group has 1,264 (2017: 1,235) employees, including personnel of production, R&D and management team, among which, female employees account for 32%. The Group respects women's labor rights and gives full play to their characteristics regarding carefulness and manual dexterity during glass fabrics knitting. Employees have served approximately 5.26 years on average, with 73% of employees ranging from aged 30 to aged 50.







REMUNERATION

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

WELFARE

Comprehensive insurance plan

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

Holiday subsidies and allowances

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

Dormitory services

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

Catering services

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

Tours by labor union

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

Provision of interest-free loans for home purchase

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

During the Reporting Period, a total of 2 employees have received the Group's financial support for home purchase, and the amount of financial support was approximately RMB0.45 million.

Training and development

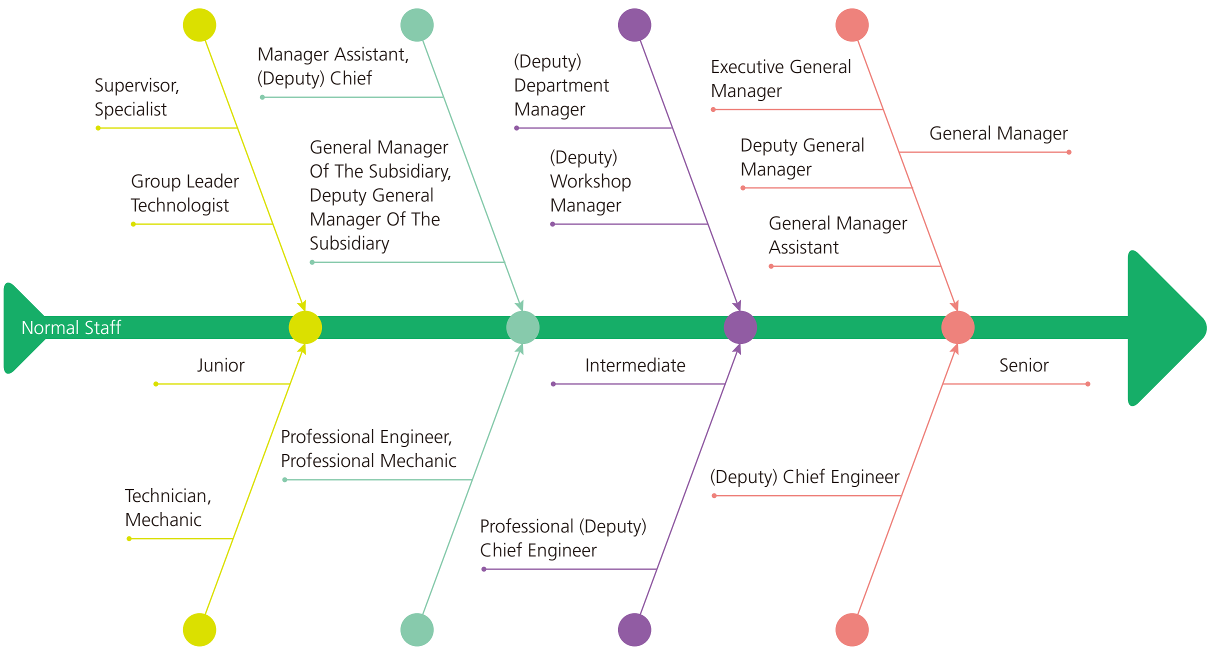
The Group provides comprehensive and sufficient training, learning and development opportunities for employees with different positions and types of work. The training content includes corporate culture, operating skills of positions, technology development, communication and negotiation skills, management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

During the Reporting Period, the Group organized 541 training sessions in respect of business development, professional skills and management skills, etc. and the number of employees who participated in the training reached 12,387. The training time per employee is 17.26 learning hours. The total training expenses are approximately RMB150,000.

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

Key performance indicators	2018	2017
Number of employees	**1,264**	1,235
Total training expenses (RMB0'000)	**15**	10.3
Total training hours of employees	**21,814**	32,284
Percentage of training received	**100%**	100%
By type of employment (hours/person)		
Average training hours per employee	**17.26**	26.14
By gender (hours/person)		
Male	**17.26**	26.14
Female	**17.26**	26.14
By type of employment (hours/person)		
Senior	**60**	72
Intermediate	**105**	142
General	**17.03**	25.88
Training category (person)		
Number of employees attending external training courses	**150**	105
Number of employees attending the Group's internal training courses	**1,264**	1,235

In order to motivate employees to develop themselves, the Group provides three promotion channels, namely management sequence, production sequence and technology sequence, for employees by different types of work:



BALANCE BETWEEN WORK AND REST

The Company adheres to the people-oriented concept and favorable corporate cultural ambience, which helps employees to focus better on their work and stimulate their creativity. In order to promote corporate culture and enhance organizational solidarity, the Group organizes employees to conduct a wide range of recreational activities and sports activities such as lantern riddles, tug-of-war competitions, badminton competitions and basketball games, etc. every year to encourage employees to integrate into the corporate culture and develop the habit of regular exercise to keep fit.

OCCUPATIONAL HEALTH AND SAFETY

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

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

The Group also established systems including Hazard Identification, Risk Assessment and Risk Control Procedure, Occupational Health and Safety Performance Management Procedure and Hazardous Chemical Management Procedure, formulated the preparation and drill for various emergency plans (1 comprehensive emergency plan, 7 special emergency plans) at the beginning of each year, provided relevant training for the staff and organized the staff to identify hazard in order to improve the emergency response capability of the organization and the capability of the staff to handle various emergency and ensure to minimize the occurrence of relevant risks.

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

During the Reporting Period, the number of reportable work-related injury cases of the Group were 4, and work-related injury rate per 1,000 workers was approximately 3.2%. During the Reporting Period, there was no staff disability and fatality caused by work-related injury in the Group.

In addition, the Group formulated annual medical examination (which covers more than 20 items) program for each employee, and the number of the employees participated in the medical examination during the year was 1,101 (since the medical exam was a voluntary choice of the employee, some employees failed to participate because of their self-condition or other considerations). Moreover, the Group provided relevant positions with protective gears, including gloves, dust masks and working caps, and arranged flexible job rotation for the positions with risks to safeguard the staff's health. During the Reporting Period, the passing rate for the occupational disease exam of the staff of the Group was 100% and there was no accident arising from occupational disease or occupational hazards.

LABOR STANDARDS

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

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

OPERATING PRACTICES

SUPPLY CHAIN MANAGEMENT

Selection of suppliers

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

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

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

Cooperation with Suppliers

Key performance indicator (by geographical locations)	2018	2017
Total number of suppliers	141	84
China	64	59
Egypt	77	43
Others	0	1

Relationship with Suppliers

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

Sunshine purchase

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

PRODUCT RESPONSIBILITIES

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

Product quality

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

All main products of the Group have obtained DNV GL certification granted by DNV GL (a renowned international certification authority) and customer certification required by overseas manufacturers of wind turbine and blades. In order to obtain relevant certifications and ensure to maintain high-quality of the Group's products, the Testing Centre of the Group has conducted various performance tests on the strength, modulus and anti-fatigue of the products and raw materials of the Group. During the Reporting Period, the Testing Centre has been accredited as a CNAS national laboratory and a DNV GL laboratory successively. The test reports provided by the Testing Centre can use "CNAS" accreditation labels, "ILAC-MRA/CNAS" international mutual-accreditation joint labels and "DNV GL" certification labels, which assure the product quality of the Group and illustrate that the test results issued by the Group to customers within the scope of certification are independent, reliable and authoritative.

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

Customer complaints and returns and exchanges processing

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

During the Reporting Period, products produced and sold by the Group were recalled for reasons of quality, safety and health as follows:

During the Reporting Period, the Group received over 63 reports on complaints and feedbacks of products and services, which were handled in a timely manner during the Reporting Period and among which, 100% of them were solved.

Intellectual property rights

The Group values highly the R&D and innovation of fiberglass fabrics. The product R&D department and quality department are responsible for the development, management and maintenance of intellectual property rights and maintaining good communication with the local intellectual property rights bureaus in areas where it operates. During the Reporting Period, the R&D expenses of the Group aggregated to approximately RMB37.6 million and was granted a total of 16 patent licenses. The number of patents authorized had accumulated up to 85, in which 8 were invention patents and 77 were utility model patents.

Customer privacy

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

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

ANTI-CORRUPTION

The Group actively encourages employees to stick to the concept of probity, fairness, loyalty and honesty in their daily words and deeds, and developed formal "Administrative Measures for Anti-fraud and Whistleblowing Mechanism" (《反舞弊與舉報機制管理辦法》), "Employee Manual" (《員工手冊》), etc. to guide the conduct and behavior of employees in our daily operation, require employees to refuse any behavior of corruption, fraud, unfair competition, etc. and strictly prohibit any bribery and any act that is harmful to the Group, environment and society. Meanwhile, the Group also provides sophisticated reward and punishment system and reporting manners to ensure that all employees understand and implement the relevant code of conduct and ethics. There were no cases of any corruption, bribery, extortion, fraud or money laundering during the Reporting Period. The Group will keep abiding by the Company's code of ethics, and maintaining our excellent reputation to prevent any corruption in the future.

PUBLIC WELFARE

With the concept of "Taking from the Society and Serving the Public", the Group is willing to work with all stakeholders to create an environment for "Harmonious Development of Employees, Corporation and Society". During the Reporting Period, the employees of the Group actively participated in various charity activities within their capacity, such as advising on tobacco control, volunteer service at the World Internet Conference and voluntary blood donation, etc., so as to contribute their own love to society.

Charity activity of advising on tobacco control

SOCIAL DONATION

The Group has always been dedicated to serving and contributing to the community and getting involved in various charity services. The Company organized an activity to alleviate poverty with love and care with the community in October 2018, in which we helped people with difficulties in their livelihood within our capability and sent them condolence gifts.

Corporate Governance Report

The Board is pleased to present the corporate governance report in this Annual Report of the Company for the year ended 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

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 CG Code as its own code of corporate governance. During the year ended 31 December 2018, the Company has complied with the code provisions as set out in the CG Code.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

THE BOARD

Responsibility

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

Composition of the Board

The Board currently comprises four non-executive Directors (i.e. Mr. Zhang Yuqiang, Mr. Zhang Jiankan, Mr. Tang Hsin-hua and Mr. Wang Yuan), two executive Directors (i.e. Mr. Zhou Tingcai and Ms. Huang Junjun) and three independent non-executive Directors (i.e. Mr. Xie Guoping, Mr. Lou Hetong and Mr. Zhao Jun). The biographical details of the Directors are set out in the section headed "Directors and Senior Management Profile" of this Annual Report.

For the year ended 31 December 2018 and up to the date of this Annual Report, the Board has complied with the Rules 3.10(1) and 3.10(2) of the Listing Rules which require the appointment of at least three independent non-executive Directors, among which, at least one independent non-executive Director must possess appropriate professional qualifications or accounting or related financial management expertise at any time.

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

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

Except that Mr. Zhang Yuqiang, the non-executive Director, and Mr. Zhang Jiankan, the non-executive Director, are the relationship of father and son, each of the Directors does not have any personal relationships with any other Directors (including financial, commercial, family or other significant/relevant relationships).

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

Board diversity policy

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

Training of Directors

Directors' induction and continuous professional development

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

The training received by all Directors in 2018 is as follows:

Name of Director	Training received (Note)
Mr. Zhang Yuqiang	✔
Mr. Zhang Jiankan	✔
Mr. Tang Hsin-hua	✔
Mr. Wang Yuan	✔
Mr. Zhou Tingcai	✔
Ms. Huang Junjun	✔
Mr. Xie Guoping	✔
Mr. Lou Hetong	✔
Mr. Zhao Jun	✔

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

Chairman and general manager

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

Appointment and re-election of Directors

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

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. Their appointment commenced from the date of the appointment letter for a term which may be extended to such period as the Company and the independent non-executive Director may agree, and it may be terminated by either party by giving at least one month's written notice.

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

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

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

Responsibilities of the Board

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

Compliance with the Model Code

The Company has adopted the code of conduct for securities transactions by Directors on terms no less exacting than the required standard of the Model Code in the Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with such code of conduct for the year ended 31 December 2018.

Liability insurance for the Directors

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

Remuneration of Directors and senior management

The Company has formulated the official and transparent procedures for the remuneration policy of the senior management of the Group. Details of the remuneration of the Directors for the year ended 31 December 2018 are set out in note 14 to the consolidated financial statements.

The remuneration paid to the senior management (exclusive of Directors) for the year ended 31 December 2018 was within the range below:

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

Board Committees

Audit Committee

The Audit Committee comprises three members, namely Mr. Xie Guoping (chairman), the independent non-executive Director; Mr. Wang Yuan, the non-executive Director and Mr. Lou Hetong, the independent non-executive Director. The major responsibilities of the Audit Committee include the followings:

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

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

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

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2018, the Audit Committee held two meetings, on which the committee mainly reviewed, the audited consolidated financial statements, annual results announcement and annual report of the Group for the year ended 31 December 2017, the unaudited financial statements, interim results announcement and interim report of the Group for the six months ended 30 June 2018, and discussed with the external auditor or the Directors and made recommendations on the accounting principles and practices adopted by the Company, the compliance with CG Code by the Company and the effectiveness of the risk management and internal control of the Company disclosed in this Annual Report.

Remuneration committee

The Remuneration Committee comprises three members, namely Mr. Xie Guoping (chairman), the independent non-executive Director; Mr. Zhang Jiankan, the non-executive Director and Mr. Lou Hetong, the independent non-executive Director. The majority of the members of the Remuneration Committee are independent non-executive Directors. The major duties of the Remuneration Committee include:

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

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

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

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

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

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

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

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

For the year ended 31 December 2018, the Remuneration Committee held two meetings, on which the committee reviewed and discussed the remuneration policy and structure of the Company, assessed performance of Directors, and discussed the remuneration structure and policy for the Directors and senior management and made recommendations to the Board on matters such as the remuneration of certain directors.

Nomination committee

The Nomination Committee comprises three members, namely Mr. Zhang Yuqiang (chairman), the non-executive Director; Mr. Xie Guoping, the independent non-executive Director and Mr. Zhao Jun, the independent non-executive Director. The majority of the members of Nomination Committee are independent non-executive Directors. The major duties of the Nomination Committee include the followings:

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

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

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

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

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

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

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

For the year ended 31 December 2018, the Nomination Committee held two meeting, on which the committee reviewed the structure and composition of the Board, the qualification of the Directors and senior management and the independence of the independent non-executive Directors.

The Company understands and believes that diversity in the Board is beneficial for improving the performance of the Company. As such, the Company has adopted a board diversity policy which sets out the approach to achieve diversity of the Board. Pursuant to the board diversity policy, the Company considers board diversity from a number of aspects, including but not limited to gender, age, cultural and educational background, race, professional experience, skill, knowledge and term of service. The Company will also consider its business model and design the best composition of the Board from time to time based on its specific needs. Having reviewed the board diversity policy and the Board's composition, the Nomination Committee considers that the requirements set out in the board diversity policy had been met.

The Board and Board Committee meeting

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

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

For the year ended 31 December 2018, the attendance of Directors at the Board and Board Committee meetings and the Annual General Meeting is set out as below:

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

Directors' responsibilities for financial reporting in respect of financial statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018 which give a true and fair view of the affairs of the Company and the Group and of the Group's results and cash flows.

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

The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern. The statement made by the auditors of the Company regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 74 to 78 of this Annual Report.

Risk management and internal control

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

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

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

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

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

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

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

For the year ended 31 December 2018, the Board has reviewed the effectiveness of the risk management and internal control systems of the Group, which covers the areas such as financial monitoring, operation management, legal compliance and risk management functions. The Board considered the Group's operation of current risk management and internal control systems effective and adequate.

REMUNERATION OF AUDITORS

During the year, remuneration paid/payable to the auditors by the Company for professional audit services amounted to RMB1.8 million in aggregate. Apart from this, the Company did not receive any other material non-audit services provided by the auditor and paid for the related service fee.

JOINT COMPANY SECRETARIES

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

In order to maintain the sound corporate governance and ensure the compliance with the Listing Rules and applicable Hong Kong Laws, the Company also appointed Mr. Lui Chi Ho, a partner of Ince & Co., as the Joint Company Secretary, assisting Mr. Yin to perform his duties of the company secretary of the Company. Mr. Yin is the major contact person between him and the Company.

For the year ended 31 December 2018, Mr. Yin and Mr. Lui received not less than 15 hours of relevant professional trainings pursuant to Rule 3.29 of the Listing Rules, respectively.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

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

The AGM will be held on Thursday, 9 May 2019, and the notice of which will be dispatched to the Shareholders not less than 20 clear business days before the date of the AGM.

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

SHAREHOLDERS' RIGHTS

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

PROCEDURES TO CONVENE AN EXTRAORDINARY GENERAL MEETING

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

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

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

- Eligible Shareholders who wish to convene an extraordinary general meeting for the purpose of making proposals or moving a resolution at such meeting must deposit a written requisition (the "**Requisition**") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong.

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

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

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

MAKING ENQUIRY TO THE BOARD

Shareholders may send their enquiries to the Board in respect of the Company by addressing to the principal place of business of the Company in Hong Kong. The enquiry address is 19th Floor, Three Exchange Square, 8 Connaught Place, Central Hong Kong.

DIVIDEND POLICY

Pursuant to article E.1.5 of the CG Code, the Company has adopted a dividend policy. The Board may from time to time declare dividends (including interim dividends) and other distributions on Shares in issue and authorize payment of the same out of the funds of the Company lawfully available therefor, after taking into account the Group's financial and business conditions, earnings, capital requirements and other factors as it may deem relevant at such time. The Company may declare dividends through ordinary resolution of the general meeting of shareholders, but no dividend shall exceed the amount recommended by the Board. The Board may from time to time pay the shareholders an interim dividend which is reasonable in relation to the profit of the Company. Any declaration and payment, as well as the amount of, dividends will be subject to the requirements of the Articles of Association and the Cayman Companies Law.

ARTICLES OF ASSOCIATION OF THE COMPANY

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

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Hengshi Foundation Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 79 to 170, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (the "IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Impairment assessment of trade related receivables We identified impairment assessment of trade related receivables as a key audit matter due to the significance of trade related receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses of the Group's trade related receivables at the end of the reporting period. As at 31 December 2018, the Group's net trade related receivables, including trade receivables of RMB517,904,000 in note 25 to the consolidated financial statements and trade balance due from related parties of RMB4,098,000 in note 28(A) to the consolidated financial statements, amounting to approximately RMB522,002,000 in total, represented approximately 23% of total assets of the Group and out of these trade related receivables of approximately RMB174,406,000 were past due. As explained in note 2 to the consolidated financial statements, in the current year, the Group adopted Financial Reporting Standards 9 "Financial Instruments" (IFRS 9) in accordance with the transitional provisions of IFRS 9. As disclosed in note 38 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade related receivables based on provision matrix through grouping of various debtors that have similar loss patterns, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade related receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information. In addition, trade related receivables that with significant outstanding balances or are credit-impaired are assessed for ECL individually. The loss allowance amount of the significant outstanding balances or credit-impaired trade related receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses. As disclosed in note 38 to the consolidated financial statements, the Group recognized an additional amount of RMB5,561,000 of impairment of trade related receivables for the year and the Group's lifetime ECL on trade related receivables as at 31 December 2018 amounted to approximately RMB38,518,000.	Our procedures in relation to impairment assessment of trade related receivables included: • Understanding key controls on how the management estimates the loss allowance for trade related receivables; • Testing the integrity of information used by management to develop the provision matrix, including trade related receivables ageing analysis as at 1 January 2018 and 31 December 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents; • Challenging management's basis and judgement in determining credit loss allowance on trade related receivables as at 1 January 2018 and 31 December 2018, including their identification of trade related receivables with significant outstanding balances or credit-impaired, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); • Evaluating the disclosures regarding the impairment assessment of trade related receivables in notes 25 and 38 to the consolidated financial statements; and • Testing subsequent settlements of credit-impaired trade related receivables, on a sample basis, by inspecting supporting documents in relation to cash receipt from trade debtors subsequent to the end of the current reporting period.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2019

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	5	**1,458,050**	1,216,593
Cost of sales		**(928,290)**	(767,934)
Gross profit		**529,760**	448,659
Other income	7	**20,929**	16,697
Impairment losses, net of reversal	11	**(4,767)**	(12,500)
Other gains and losses	8	**(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	9	**(1,395)**	(500)
Finance costs	10	**(52)**	(60)
Profit before tax		**317,806**	260,082
Income tax expense	12	**(65,052)**	(44,332)
Profit for the year	13	**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)	17	**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	18	**718,901**	570,425
Prepaid lease payments	19	**28,481**	29,257
Intangible assets	20	**954**	1,214
Deferred tax assets	21	**16,470**	14,043
Deposits paid for acquisition of property, plant and equipment	22	**594**	88,253
Financial assets at fair value through profit or loss ("FVTPL")	23	**–**	6,321
		765,400	709,513
CURRENT ASSETS			
Inventories	24	**209,630**	144,817
Prepaid lease payments	19	**776**	776
Trade and other receivables	25	**544,309**	404,917
Bills receivables	27	**223,687**	159,988
Amounts due from related parties	28	**8,995**	9,866
Financial assets at FVTPL	23	**2,265**	–
Pledged bank deposits	29	**203,884**	154,354
Bank balances and cash	29	**311,279**	324,968
		1,504,825	1,199,686
CURRENT LIABILITIES			
Trade and other payables	30	**93,815**	191,139
Bills payables	31	**384,050**	352,231
Amounts due to related parties	28	**215,636**	3,043
Tax payable		**30,867**	16,022
Financial liabilities at FVTPL	23	**15,142**	–
Contract liabilities	32	**4,038**	–
Deferred income-government grants	33	**300**	300
		743,848	562,735
NET CURRENT ASSETS		**760,977**	636,951
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,526,377**	1,346,464

	NOTES	31/12/2018 RMB'000	31/12/2017 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	21	**14,738**	9,594
Deferred income-government grants	33	**1,650**	1,950
		16,388	11,544
NET ASSETS		**1,509,989**	1,334,920
CAPITAL AND RESERVES			
Share capital	34	**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

The consolidated financial statements on pages 79 to 170 were approved and authorised for issue by the board of directors of the Company on 25 March 2019 and are signed on its behalf by:

Mr. ZHANG Yuqiang
Director

Mr. ZHANG Jiankan
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share Capital	Share Premium	Statutory Reserve Surplus	Other Reserve	Retained Profits	Proposed Final Dividend	Translation Reserve	Sub-total	Non-controlling Interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note a)	*(note b)*	*(note c)*						
At 1 January 2017	6,207	1,021,918	77,893	(105,137)	163,848	88,500	(44,357)	1,208,872	(1,788)	1,207,084
Profit for the year	–	–	–	–	214,049	–	–	214,049	1,701	215,750
Other comprehensive expense for the year	–	–	–	–	–	–	(4,568)	(4,568)	(13)	(4,581)
Total comprehensive income (expense) for the year	–	–	–	–	214,049	–	(4,568)	209,481	1,688	211,169
Appropriation to statutory reserve	–	–	19,276	–	(19,276)	–	–	–	–	–
Payment of 2016 final dividends	–	–	–	–	–	(88,500)	–	(88,500)	–	(88,500)
Proposed 2017 dividends *(note 16)*	–	–	–	–	(86,400)	86,400	–	–	–	–
Waiver of listing expense previously charged to share premium	–	5,167	–	–	–	–	–	5,167	–	5,167
Deemed acquisition of additional interest in a subsidiary	–	–	–	(2,124)	–	–	–	(2,124)	2,124	–
At 31 December 2017	6,207	1,027,085	97,169	(107,261)	272,221	86,400	(48,925)	1,332,896	2,024	1,334,920
Adjustments *(note 2)*	–	–	–	–	–	–	–	–	–	–
At 1 January 2018 (restated)	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 year	–	–	–	–	251,784	–	–	251,784	970	252,754
Other comprehensive income for the year	–	–	–	–	–	–	6,188	6,188	42	6,230
Total comprehensive income for the year	–	–	–	–	251,784	–	6,188	257,972	1,012	258,984
Appropriation to statutory reserve	–	–	22,218	–	(22,218)	–	–	–	–	–
Payment of 2017 final dividends	–	–	–	–	–	(86,400)	–	(86,400)	–	(86,400)
Proposed 2018 dividends *(note 16)*	–	–	–	–	(88,550)	88,550	–	–	–	–
Capital injection from a non-controlling shareholder upon incorporation of a subsidiary *(note d)*	–	–	–	–	–	–	–	–	2,485	2,485
At 31 December 2018	6,207	1,027,085	119,387	(107,261)	413,237	88,550	(42,737)	1,504,468	5,521	1,509,989

Notes:

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

i. Capital contribution arising in the amount of RMB607,109,000 was contributed by the shareholders of the Company in April 2015 so as to facilitate the acquisition of Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. (浙江恒石纖維基業有限公司) ("Hengshi Fiberglass") from its then shareholders as part of the group reorganization. The amount was recorded in other reserve and transferred to share capital of RMB4,591,000 and share premium of RMB602,518,000 upon completion of the shares issue on 17 August 2015.

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

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

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

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

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

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

Notes: (Continued)

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

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

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

(d) During the year ended 31 December 2018, Turkey Fiberglass Industry and Trade (Commerce) Joint Stock Company ("Hengshi Turkey") was established by Hengshi Fiberglass and Kologlu Kimya Sanayi Ve Insaat Ticaret Limited Sirketi ("Kologlu Kimya"), an independent party of the Group. The paid-in capital of Hengshi Turkey was USD2,400,000 (equivalent to RMB16,643,000). Kologlu Kimya is the non-controlling shareholder of Hengshi Turkey, holding 15% equity interest amounting to USD360,000 (equivalent to RMB2,485,000) in Hengshi Turkey.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Year ended 31/12/2018 ***RMB'000***	Year ended 31/12/2017 *RMB'000*
Profit before tax	**317,806**	260,082
Adjustments for:		
Finance costs	**52**	60
Net foreign exchange (gains) loss	**(14,965)**	13,682
Bank interest income	**(9,145)**	(5,960)
Depreciation of property, plant and equipment	**59,039**	61,446
Impairment loss in respect of financial assets, net of reversal	**4,767**	12,500
Amortization of intangible assets	**260**	87
Loss on disposal of property, plant and equipment	**234**	17
Loss (gain) on fair value changes of financial assets and financial liabilities at FVTPL	**14,433**	(6,321)
Allowance for inventories	**–**	1,790
Release of prepaid lease payments	**776**	776
Deferred income released as government grants	**(300)**	(300)
Operating cash flows before movement in working capital	**372,957**	337,859
Increase in inventories	**(55,729)**	(13,419)
Increase in trade and other receivables	**(131,404)**	(46,188)
Increase in bills receivables	**(63,699)**	(123,488)
(Increase) decrease in amounts due from related parties	**(3,514)**	4,535
(Decrease) increase in trade and other payables	**(103,457)**	148,378
Increase in contract liabilities	**372**	–
(Decrease) increase in bills payables	**(9,178)**	54,562
Increase (decrease) in amounts due to related parties	**212,713**	(8,332)
Decrease in financial assets at FVTPL	**4,765**	–
Cash generated from operations	**223,826**	353,907
Income tax paid	**(47,652)**	(42,657)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**176,174**	311,250

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Cash flows from investing activities		
Purchase of property, plant and equipment	**(71,202)**	(79,787)
Deposits paid for acquisition of property, plant and equipment	**(594)**	(18,253)
Purchase of intangible assets	**–**	(1,301)
Interest received from bank deposits	**9,145**	5,960
Withdrawal of pledged bank balances	**2,026,577**	1,571,048
Placement of pledged bank deposits	**(2,076,107)**	(1,591,799)
NET CASH USED IN INVESTING ACTIVITIES	**(112,181)**	(114,132)
Cash flow from financing activities		
Dividend paid	**(86,400)**	(88,500)
Repayment of bank borrowings	**(1,323)**	(50,000)
New bank loans raised	**1,323**	–
Interest paid	**(52)**	(120)
Repayment to a shareholder	**–**	(7)
Advance from a related party	**–**	695
Repayment to a related party	**–**	(781)
Capita injection from a non-controlling shareholder upon incorporation of a subsidiary	**2,485**	–
NET CASH USED IN FINANCING ACTIVITIES	**(83,967)**	(138,713)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(19,974)**	58,405
Cash and cash equivalents at the beginning of the year	**324,968**	269,397
Effect of foreign exchange rate changes	**6,285**	(2,834)
Cash and cash equivalents at the end of the year, represented by bank balances and cash	**311,279**	324,968

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.

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 15 *Revenue from Contracts with Customers*

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

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.

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

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in notes 5 and 3 respectively.

Summary of effects arising from initial application of IFRS 15

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

The following adjustments were made to the amounts recognized in the 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

* The amounts in this column are before the adjustments for the application of IFRS 9.

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

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

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 15 *Revenue from Contracts with Customers* (Continued)

Summary of effects arising from initial application of IFRS 15 (Continued)

The following table summarises the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated financial statement of cash flows for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Adjustments	Amounts without application of IFRS15
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and other payables	93,815	4,038	97,853
Contract liabilities	4,038	(4,038)	–

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

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.1 IFRS 15 *Revenue from Contracts with Customers* (Continued)

Impact on the consolidated statement of cash flows

	As reported *RMB'000*	Adjustments *RMB'000*	Amounts without application of IFRS15 *RMB'000*
Operating Activities			
Decrease in trade and other payables	(103,457)	372	(103,085)
Increase in contract liabilities	372	(372)	–

2.2 IFRS 9 *Financial Instruments and the related amendments*

In the current year, 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 impairment under ECL model) 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.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

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

New and Amendments to IFRSs that are mandatorily effective for the current year *(Continued)*

2.2 IFRS 9 *Financial Instruments and the related amendments* (Continued)

Summary of effects arising from initial application of IFRS 9

There were no material impact to the reclassification and remeasurement of the financial assets arising from initial application of IFRS 9 as at 1 January 2018.

Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and amounts due from related parties for contracts with customers. Trade receivables and amounts due from related parties have been assessed individually with outstanding significant or credit-impaired balances, the remaining balances are grouped based on shared credit risk characteristics.

Except for those which had been determined as credit impaired under IAS 39, ECL for other financial assets at amortised cost, including other receivables, bills receivables, pledged bank deposits and bank balances, are assessed on 12m ECL basis as 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.

2.3 Impacts on opening 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 consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	IFRS 15	IFRS 9	1 January 2018 (Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current Liabilities				
Trade and other payables	191,139	(3,666)	–	187,473
Contract liabilities	–	3,666	–	3,666

Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

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

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 Treatments[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 IFRS 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

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

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

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

IFRS 16 *Leases*

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

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

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

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

IFRS 16 *Leases* *(Continued)*

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB7,307,000 as disclosed in note 35. An assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB670,000 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as lease applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group reassesses whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and recognised the cumulative effect of initial application to opening retained profits without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in existing subsidiaries

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2)

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 obligation is transferred to the customer.

A performance obligation represents a good or 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 recognised 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 receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's 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 recognised at a point in time when the customer obtains control of the distinct good or service.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue from contracts with customers (upon application of IFRS 15 in accordance with transitions in note 2) *(Continued)*

Revenue recognition (prior to 1 January 2018)

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

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

Goods and interests

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

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

Leases

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

The Group as lessor

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale; are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Retirement benefit costs

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

Short-term employee benefits

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

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

Taxation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets: research expenditure

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

Impairment losses on tangible and intangible assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

Financial assets 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; and

- the contractual terms 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 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 if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instruments.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in note 2) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial assets 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 recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2)

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, pledge bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect date 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 well as the forecast of future of future conditions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

The Group always recognizes lifetime ECL for trade receivables and amounts due from related parties for contracts with customers. The ECL on these assets are assessed individually for debtors with significant or credit-impaired balances and collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics for the remaining balances.

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.

(i) 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 effort.

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 instrument's external (if available) 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 obligations;

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(i) Significant increase in credit risk (Continued)

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.

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 regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (upon application IFRS 9 with transitions in accordance with note 2) (Continued)

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 38.

(ii) Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (before application of IFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which IFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability and is included in the "other gains and losses" line item.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, bills payables and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Provision of ECL for trade receivables

Trade receivables with significant outstanding balances or credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL for the remaining trade receivables. The provision rates are based on aging as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 25 and 38.

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

Key sources of estimation uncertainty *(Continued)*

Provision of ECL for trade receivables *(Continued)*

As at 31 December 2018, the carrying amount of trade receivables was RMB517,904,000 (net of allowance for credit losses of RMB33,686,000) (31 December 2017: RMB378,036,000 (net of allowance for doubtful debt of RMB33,751,000)).

Estimated allowance for inventories

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

As at 31 December 2018, the carrying amount of inventories was RMB209,630,000 (net of allowance of RMB2,740,000) (31 December 2017: RMB144,817,000 (net of allowance of RMB6,651,000)).

5. REVENUE

(i) 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

5. REVENUE *(Continued)*

(i) Disaggregation of revenue from contracts with customers *(Continued)*

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.

(ii) Performance obligation for contracts with customers

Sale of fiberglass fabrics (revenue recognised at one point in time)

The Group sells fiberglass fabrics to end customers and distributors.

Revenue is recognised when control of the goods has been transferred, being at the point the goods are delivered to the end customers or distributors. Delivery occurs when the goods have been transported to the end customers or distributors' specific locations. The normal credit term is 30 to 90 days.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

All contracts for sales of fiberglass fabrics are for period of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

6. 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.

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

6. OPERATING SEGMENT *(Continued)*

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

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

7. 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 *(note)*	**2,960**	5,765
Rental income	**685**	–
Sundry income	**936**	82
	20,929	16,697

Note: The government grants represented the amounts received from the local government by Hengshi Fiberglass. During the year, government grants included (i) RMB2,660,000 (2017: RMB5,465,000) represented incentives for business development which were unconditional and (ii) RMB300,000 (2017: RMB300,000) was assets-related subsidy released to profit or loss during the year (Details as set out in note 33).

8. 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 of 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)

9. OTHER EXPENSES

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Cost of scrap sales	**1,395**	500

10. FINANCE COSTS

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Interest on bank borrowings	52	60

There are no borrowings used to finance the construction in progress for the years ended 31 December 2018 and 2017.

11. IMPAIRMENT LOSSES, NET OF REVERSAL

	Year ended 31/12/2018 RMB'000	Year ended 31/12/2017 RMB'000
Impairment losses recognised on trade related receivables	4,767	12,500

12. 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
Underprovision in prior years	1,035	1,800
	62,497	46,100
Deferred tax charge (credit) *(note 21)*	2,555	(1,768)
	65,052	44,332

12. INCOME TAX EXPENSE *(Continued)*

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

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Profit before tax	**317,806**	260,082
Tax at PRC EIT rate of 25% (2017: 25%) *(note a)*	**79,452**	65,021
Tax effect of expenses not deductible for tax purposes	**3,653**	3,297
Tax effect attributable to the additional qualified tax deduction relating to research costs	**(1,500)**	(375)
Tax effect of income not taxable for tax purpose	**(2,006)**	(10,386)
Underprovision in prior years	**1,035**	1,800
Withholding tax *(note b)*	**11,600**	8,948
Income tax at concessionary rate	**(25,056)**	(22,836)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,126)**	(1,137)
Income tax expense	**65,052**	44,332

Note:

a. 25% is the tax rate in the jurisdiction where the major operation subsidiaries of the Group are substantially based.

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

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% except for Hengshi Fiberglass as it obtained "High and New Technology Enterprise" status that entitles it a preferential tax rate of 15% from the years 2018 to 2020.

Provision for PRC Enterprise Income Tax for the year was made based on the estimated assessable profits calculated in accordance with the EIT Law, and regulations applicable to the subsidiaries operated in the PRC.

13. 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 *(note 14)*	**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

14. DIRECTORS' EMOLUMENTS

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

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance related bonus *(note d)* *RMB'000*	Retirement benefit schemes contribution *RMB'000*	Total emoluments *RMB'000*
Year ended 31 December 2018					
Executive directors					
Mr. Zhou Tingcai	–	911	86	25	1,022
Ms. Huang Junjun	–	470	93	25	588
	–	1,381	179	50	1,610

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

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance related bonus *(note d)* *RMB'000*	Retirement benefit schemes contribution *RMB'000*	Total emoluments *RMB'000*
Non-executive directors					
Mr. Zhang Yuqiang	3,000	–	–	–	3,000
Mr. Tang Hsinhua	–	–	–	–	–
Mr. Wang Yuan	693	–	–	–	693
Mr. Zhang Jiankan	694	–	–	–	694
	4,387	–	–	–	4,387

The non-executive director's emoluments shown above were for their service as a director of the Company.

	Fee *RMB'000*	Salaries and other benefits *RMB'000*	Performance related bonus *(note d)* *RMB'000*	Retirement benefit schemes contribution *RMB'000*	Total emoluments *RMB'000*
Independent Non-executive directors					
Mr. Xie Guoping *(note a)*	120	–	–	–	120
Mr. Lou Hetong *(note b)*	80	–	–	–	80
Mr. Zhao Jun *(note c)*	80	–	–	–	80
Mr. Chen Zhijie *(note c)*	40	–	–	–	40
Mr. Pan Fei *(note b)*	–	–	–	–	–
	320	–	–	–	320
Total	4,707	1,381	179	50	6,317

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

14. DIRECTORS' EMOLUMENTS *(Continued)*

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

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

	Fee	Salaries and other benefits	Performance related bonus	Retirement benefit schemes contribution	Total emoluments
Non-executive directors					
Mr. Zhang Yuqiang	3,000	–	–	–	3,000
Mr. Tang Hsinhua	–	–	–	–	–
Mr. Wang Yuan	346	–	–	–	346
Mr. Zhang Jiankan	356	–	–	–	356
	3,702	–	–	–	3,702

The non-executive director's emoluments shown above were for their service as a director of the Company.

	Fee	Salaries and other benefits	Performance related bonus	Retirement benefit schemes contribution	Total emoluments
Independent Non-executive directors					
Mr. Xie Guoping *(note a)*	63	–	–	–	63
Mr. Fang Xianbai *(note a)*	57	–	–	–	57
Mr. Pan Fei *(note b)*	100	–	–	–	100
Mr. Chen Zhijie *(note c)*	120	–	–	–	120
	340	–	–	–	340
Total	4,042	1,391	141	40	5,614

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

14. DIRECTORS' EMOLUMENTS *(Continued)*

Notes:

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

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

(c) On 6 March 2018, Mr. Chen Zhijie has resigned as an independent non-executive director and a member of the nomination committee. In replacement of Mr. Chen Zhijie, Mr. Zhao Jun has been appointed as an independent non-executive director and a member of the nomination committee with effect from 6 March 2018.

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

All of the directors' emoluments during the years ended 31 December 2018 and 2017 were borne by the Group.

No remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office in both years. Mr. Pan Fei waived his emoluments from 1 January 2018 to 6 March 2018, none of the other directors of Company waived any emoluments in both years.

15. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included four directors (2017: three directors), details of whose emoluments are set out in note 14 above. Details of the remuneration for the year of remaining one (2017: two) highest paid employee who is neither directors nor chief executives of the Company are as follow.

	Year ended 31/12/2018 ***RMB'000***	Year ended 31/12/2017 *RMB'000*
Salaries and other benefits	**1,105**	1,702
Performance related bonus *(note)*	**–**	71
Retirement benefit schemes contribution	**–**	28
Total	**1,105**	1,801

Note:

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

15. FIVE HIGHEST PAID EMPLOYEES *(Continued)*

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

	Year ended 31/12/2018	Year ended 31/12/2017
Nil to HK$1,000,000	**0**	1
HK$1,000,001 to HK$1,500,000	**1**	1
	1	2

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

16. 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.

17. 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 *RMB'000*	Year ended 31/12/2017 *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 *in '000***	31/12/2017 *in '000*
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**1,000,000**	1,000,000

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

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Furniture and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2017	168,636	661,314	3,916	6,872	30,860	871,598
Additions	978	11,150	1,125	6,828	108,966	129,047
Transfers	30,884	56,763	146	70	(87,863)	–
Disposals	–	(125)	–	(8)	–	(133)
Exchange adjustment	(53)	(471)	(7)	(27)	(262)	(820)
At 31 December 2017	200,445	728,631	5,180	13,735	51,701	999,692
Additions	77,174	4,756	1,932	5,984	121,023	210,869
Transfers	26,269	65,282	–	787	(92,338)	–
Disposals	–	(762)	–	(111)	–	(873)
Exchange adjustment	235	2,599	49	34	3,345	6,262
At 31 December 2018	304,123	800,506	7,161	20,429	83,731	1,215,950
DEPRECIATION						
At 1 January 2017	(44,138)	(314,144)	(306)	(2,413)	–	(361,001)
Provided for the year	(8,392)	(58,395)	(229)	(1,486)	–	(68,502)
Eliminated on disposals	–	113	–	3	–	116
Exchange adjustment	16	92	6	6	–	120
At 31 December 2017	(52,514)	(372,334)	(529)	(3,890)	–	(429,267)
Provided for the year	(10,783)	(55,082)	(1,081)	(1,177)	–	(68,123)
Eliminated on disposals	–	579	–	60	–	639
Exchange adjustment	(44)	(237)	(15)	(2)	–	(298)
At 31 December 2018	(63,341)	(427,074)	(1,625)	(5,009)	–	(497,049)
CARRYING VALUES						
At 31 December 2018	240,782	373,432	5,536	15,420	83,731	718,901
At 31 December 2017	147,931	356,297	4,651	9,845	51,701	570,425

The Group had pledged certain of its property, plant and equipment to secure general banking facilities granted to the Group as at 31 December 2018 and 2017. Details are set out in note 39.

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

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

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

During the year ended 31 December 2018, the Group purchased machinery and equipment totaling RMB784,000 (2017: RMB244,000) from a related party. Details are set out in note 42.

19. PREPAID LEASE PAYMENTS

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Analysed for the reporting purpose as:		
Non-current portion	**28,481**	29,257
Current portion	**776**	776
	29,257	30,033

Amortisation is calculated using the straight-line method over the remaining useful lives of 38 years for the prepaid lease payments.

The Group had pledged certain of its prepaid lease payments to secure general banking facilities granted to the Group as at 31 December 2018 (31 December 2017: nil). Details are set out in note 39.

20. INTANGIBLE ASSETS

	Software
	RMB'000
COST	
At 1 January 2017	–
Additions	1,301
At 31 December 2017	1,301
Additions	–
At 31 December 2018	1,301
AMORTISATION	
At 1 January 2017	–
Additions	87
At 31 December 2017	87
Additions	260
At 31 December 2018	347
CARRYING VALUE	
At 31 December 2018	954
At 31 December 2017	1,214

21. DEFERRED TAX ASSETS (LIABILITIES)

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

	31/12/2018 RMB'000	31/12/2017 RMB'000
Deferred tax assets	16,470	14,043
Deferred tax liabilities	(14,738)	(9,594)
	1,732	4,449

	Financial liabilities at FVTPL	Allowance for doubtful debts	ECL provision	Allowance for inventories	Depreciation of property plant and equiptment	Tax loss	Unrealised profit	Withholding tax	Others	Total
At 1 January 2017	–	3,192	–	1,393	2,810	–	817	(7,886)	2,326	2,652
(Charged) credited to profit or loss	–	1,875	–	(396)	(3,226)	1,133	1,830	886	(334)	1,768
Exchange adjustments	–	–	–	–	51	(22)	–	–	–	29
At 31 December 2017	–	5,067	–	997	(365)	1,111	2,647	(7,000)	1,992	4,449
Adjustments with the adoption of IFRS 9	–	(5,067)	5,067	–	–	–	–	–	–	–
At 1 January 2018 (restated)	–	–	5,067	997	(365)	1,111	2,647	(7,000)	1,992	4,449
(Charged) credited to profit or loss	2,271	–	715	(587)	(2,956)	(1,136)	1,204	(2,000)	(66)	(2,555)
Exchange adjustments	–	–	–	–	(187)	25	–	–	–	(162)
At 31 December 2018	2,271	–	5,782	410	(3,508)	–	3,851	(9,000)	1,926	1,732

There were no other significant unrecognised temporary differences for the years ended 31 December 2018 and 2017.

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

Under the EIT Law and implementation regulations in the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation has been provided in respect of the temporary differences associated with the undistributed profits earned by the PRC subsidiary, Hengshi Fiberglass, as at 31 December 2018 at the applicable withholding tax rate of 10%. Deferred taxation has not been provided in respect of temporary differences attributable to the undistributed profits earned by Hengshi Fiberglass as at 31 December 2018 of RMB627,448,000 (2017: RMB525,242,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Deposits paid for acquisition of property, plant and equipment	**594**	88,253

As at 31 December 2017, the balance of deposits included the prepayment amounting to RMB70,000,000 paid to a related party, Zhenshi Holding Group Co., Ltd. (振石控股集團有限公司) ("Zhenshi Group") for the purchase of an office building for a total consideration of RMB75,891,000, which has been completed and transferred to the Group during the year ended 31 December 2018.

The related capital commitment is set out in note 36.

23. FINANCIAL ASSETS (LIABILITIES) AT FVTPL

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Foreign currency forward contracts classified as financial assets at FVTPL	**2,265**	6,321
Foreign currency forward contracts classified as financial liabilities at FVTPL	**(15,142)**	–
	(12,877)	6,321

Major terms of the foreign currency forward contracts, which were all settled on a net basis, outstanding at the end of 31 December 2018 and 2017 are as follows.

23. FINANCIAL ASSETS (LIABILITIES) AT FVTPL *(Continued)*

As at 31 December 2018

Notional amount	Maturity	Reference exchange rate
USD3,000,000	From 2 to 31 January 2019	Sell USD/Buy RMB at 6.4150
USD3,000,000	From 1 to 28 February 2019	Sell USD/Buy RMB at 6.4210
USD3,000,000	From 1 to 29 March 2019	Sell USD/Buy RMB at 6.4250
USD3,000,000	From 1 to 30 April 2019	Sell USD/Buy RMB at 6.4300
USD3,000,000	From 2 to 31 May 2019	Sell USD/Buy RMB at 6.4340
USD3,000,000	From 3 to 28 June 2019	Sell USD/Buy RMB at 6.4390
USD3,000,000	From 1 to 31 July 2019	Sell USD/Buy RMB at 6.4410
USD3,000,000	From 1 to 30 August 2019	Sell USD/Buy RMB at 6.4450
USD3,000,000	From 2 to 27 September 2019	Sell USD/Buy RMB at 6.4480
USD3,000,000	From 8 to 31 October 2019	Sell USD/Buy RMB at 6.4510
USD3,000,000	From 1 to 29 November 2019	Sell USD/Buy RMB at 6.4550
USD3,000,000	From 2 to 31 December 2019	Sell USD/Buy RMB at 6.4610
USD2,000,000	28 February 2019	Sell USD/Buy RMB at 6.9480
USD2,000,000	29 March 2019	Sell USD/Buy RMB at 6.9543
USD2,000,000	30 April 2019	Sell USD/Buy RMB at 6.9606
USD2,000,000	31 May 2019	Sell USD/Buy RMB at 6.9646
USD2,000,000	28 June 2019	Sell USD/Buy RMB at 6.9691
USD2,000,000	31 July 2019	Sell USD/Buy RMB at 6.9727
USD2,000,000	30 August 2019	Sell USD/Buy RMB at 6.9765
USD2,000,000	30 September 2019	Sell USD/Buy RMB at 6.9794
USD2,000,000	31 October 2019	Sell USD/Buy RMB at 6.9838
USD2,000,000	30 November 2019	Sell USD/Buy RMB at 6.9871
USD2,000,000	31 December 2019	Sell USD/Buy RMB at 6.9919

23. FINANCIAL ASSETS (LIABILITIES) AT FVTPL *(Continued)*

As at 31 December 2017

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

24. INVENTORIES

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Raw materials	**75,721**	29,173
Work in progress	**18,960**	19,507
Finished goods	**114,949**	96,137
	209,630	144,817

During the year ended 31 December 2018, allowance of inventories of RMB nil (2017: RMB1,790,000) was recognised and included in cost of sales.

25. TRADE AND OTHER RECEIVABLES

	31/12/2018 *RMB'000*	31/12/2017 *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

Notes:

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

25. TRADE AND OTHER RECEIVABLES *(Continued)*

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB172,311,000 which are past due at the reporting date. Out of the past due balances, RMB27,688,000 has been past due 90 days or more and is not considered as in default as the management considers that there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral on these balances.

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

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

	31/12/2017 *RMB'000*
Within 90 days	2,355
91 to 180 days	107,581
181 days to 1 year	25,895
1 to 2 years	1,278
	137,109

The Group has provided for all receivables overdue for more than 2 years in full because historical experience is such trade receivables that are past due beyond 2 years are generally not recoverable.

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Movement in the allowance for doubtful debts

	2017
	RMB'000
1 January	21,280
Impairment losses recognised	15,406
Impairment losses reversed	(2,906)
Write-offs	(29)
31 December	33,751

As at 31 December 2018, no trade receivables has been pledged (31 December 2017: nil).

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in note 38.

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
USD	**179,613**	131,153
European dollars ("EUR")	**22,406**	4,462
	202,019	135,615

26. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2018 and 2017 that were transferred to suppliers by endorsing these bills receivables on a full resource basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and the associated liabilities. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2018

	Bills receivables endorsed to suppliers with full resource *RMB'000*
Carrying amount of transferred assets	**215,687**
Carrying amount of associated liabilities	**(215,687)**
Net position	**–**

As at 31 December 2017

	Bills receivables endorsed to suppliers with full resource *RMB'000*
Carrying amount of transferred assets	124,925
Carrying amount of associated liabilities	(124,925)
Net position	–

27. BILLS RECEIVABLES

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 90 days	**78,208**	58,728
91 to 180 days	**140,901**	88,994
Over 180 days	**4,578**	12,266
	223,687	159,988

Details of impairment assessment of bills receivables for the year ended 31 December 2018 are set out in note 38.

28. AMOUNTS DUE FROM (TO) RELATED PARTIES

(A) Amounts due from related parties:

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Trade related *(note)*	**8,995**	9,866

Note:

As at 31 December 2018 and 1 January 2018, amounts due from related parties from contracts with customers amounted to RMB4,098,000 and RMB9,866,000 respectively.

28. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

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

Trade related balances:

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

Name	*Relationship Notes*	2018 *RMB'000*	2017 *RMB'000*
Zhenshi Group	*(i)*	–	201
Zhenshi Group (HK) Sinosia Technology Company Limited ("Sinosia Technology")	*(i)*	–	4,670
Zhenshi Spain S.A.	*(i)*	–	638
Jushi Group (BZ) Sinosia Compositos Mat ("Jushi Group (BZ)")	*(ii)*	2,013	3,274
Jushi Group (HK) Sinosia Compositos Mat ("Jushi Group (HK)")	*(ii)*	809	554
Jushi India FRP Accessories ("Jushi India")	*(ii)*	749	445
Jushi Spain, S.A. ("Jushi Spain")	*(ii)*	269	–
Jushi Canada Fiberglass Co., Ltd. ("Jushi Canada")	*(ii)*	115	59
Temax Italia S.R.L. ("Temax Italia")	*(ii)*	95	25
Jushi Japan Co., Ltd. ("Jushi Japan")	*(ii)*	48	–
Shanghai Tianshi International Logistics Co., Ltd.# (上海天石國際貨運代理有限公司) ("Shanghai Tianshi") *(note)*	*(iii)*	4,897	–
		8,995	9,866

Note: As at 31 December 2018, the amount due from Shanghai Tianshi represented the prepayment amounting to RMB4,897,000 for the purchase of service (2017: nil).

28. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

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

Trade related balances: *(Continued)*

The Group allows a credit period ranging from 30 to 120 days to its related parties. The following is an aged analysis of amounts due from related parties for contracts with customers, net of allowance for credit losses, presented based on the invoice dates, which approximate the revenue recognition date.

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 120 days	**2,003**	4,481
121 to 180 days	**2,095**	218
181 days to 1 year	**–**	200
Over 1 year	**–**	4,967
	4,098	9,866

As at 31 December 2018, included in the Group's amounts due from related parties balance are debtors with aggregate carrying amount of RMB2,095,000, which are past due but has not been past due 90 days or more at the reporting date. The management considers that there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral on these balances.

As at 31 December 2017, included in the Group's amounts due from related party balance are amounts due from related parties with a carrying amount of RMB4,481,000, which are neither past due nor impaired. The management considers that these receivables are of good quality given the continuous settlement from related parties throughout the year.

28. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

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

Trade related balances: *(Continued)*

As at 31 December 2017, the following is an aged analysis of trade related receivables with related parties based on the invoice date, which are past due but not impaired as the management considered there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience. The Group does not hold any collateral over these balances.

	31/12/2017
	RMB'000
Within 120 days	–
121 to 180 days	218
181 days to 1 year	200
Over 1 year	4,967
	5,385

The Group has provided fully for all receivables overdue for more than 2 years because historical experience is such amounts from related parties that are past due beyond 2 years are generally not recoverable.

Movement in the allowance for doubtful debts

	2017
	RMB'000
1 January	–
Impairment losses recognised	–
Impairment losses reversed	–
31 December	–

Details of impairment assessments of amounts due from related parties for the year ended 31 December 2018 are set out in note 38.

28. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

(B) Amounts due to related parties:

	31/12/2018 *RMB'000*	31/12/2017 *RMB'000*
Trade related	**215,636**	3,043

Trade related balances:

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

Name	*Relationship Notes*	**2018** *RMB'000*	2017 *RMB'000*
Zhenshi Group Zhejiang Yushi International Logistics Co., Ltd.# (振石集團浙江宇石國際物流有限公司) ("Yushi International")	*(i)*	**7,450**	154
Sinosia Technology	*(i)*	**–**	1,114
Tongxiang Huarui Automatic Control Technology and Equipment Co.,Ltd.# (桐鄉華銳自控技術裝備有限公司) ("Tongxiang Huarui")	*(i)*	**582**	–
Tongxiang Chengshi Travel Co., Ltd.# (桐鄉誠石旅遊有限公司) ("Tongxiang Chengshi")	*(i)*	**99**	–
China Jushi Co., Ltd.# (中國巨石股份有限公司) ("China Jushi")	*(ii)*	**200,082**	–
P-D Jushi Interglas Co., Ltd.# (巨石攀登電子基材有限公司) ("P-D Jushi")	*(ii)*	**4,327**	–
Jushi Group Co., Ltd.# (巨石集團有限公司) ("Jushi Group")	*(ii)*	**3,000**	–
Jushi France, SAS ("Jushi France")	*(ii)*	**86**	82
Jushi USA Fiberglass Co., Ltd ("Jushi USA")	*(ii)*	**10**	72
Shanghai Tianshi	*(iii)*	**–**	1,621
		215,636	3,043

28. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

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

Trade related balances: *(Continued)*

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 90 days	**215,311**	3,043
91 to 180 days	**134**	–
181 days to 1 year	**105**	–
1 to 2 years	**86**	–
	215,636	3,043

The amounts due were unsecured, interest free and repayable on demand.

English translated name is for identification purpose only.

Notes:

(i) The management considers these entities related as Mr. Zhang Yuqiang, who is the controlling shareholder of the Company, has controlling interest in these entities.

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

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

28. AMOUNTS DUE FROM (TO) RELATED PARTIES *(Continued)*

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

	Amounts due from related parties		Amounts due to related parties	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**8,995**	9,665	**3,232**	1,829
EUR	**–**	–	**5**	–
	8,995	9,665	**3,237**	1,829

29. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledged bank deposits

Pledged bank deposits with original maturity of more than three months carried interest at fixed rates ranging from nil to 1.55% (31 December 2017: from nil to 1.55%) per annum. The bank deposits have been pledged to secure the Group's issuance of short-term bills payables and foreign currency forward contracts and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant bills payables and foreign currency forward contracts.

Bank balances

Bank balances carried interest at prevailing market rates ranging from nil to 0.30% (31 December 2017: from nil to 0.35%) per annum.

Included in pledged bank deposits and bank balances and cash above are balances denominated in currencies other than the functional currencies of the group entities as follows:

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
USD	**144,313**	118,814
EUR	**3,343**	9,319
Hong Kong dollars ("HKD")	**42**	733
Japanese Yen ("JPY")	**4**	3
	147,702	128,869

30. 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 years	**101**	19
	46,949	140,321

Trade and other payables balances denominated in currencies other than the functional currencies of the group entities as included above are as follows:

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
USD	**19,824**	6,291
EUR	**520**	–
HKD	**–**	26
	20,344	6,317

31. BILLS PAYABLES

The aged analysis of bills payables presented based on the issuance date:

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 30 days	**160,782**	142,372
31 to 60 days	**47,760**	32,288
61 to 90 days	**32,437**	30,869
91 to 180 days	**143,071**	146,702
	384,050	352,231

As at 31 December 2018, bills payables amounted to RMB735,000, RMB15,831,000, RMB290,159,000, RMB2,241,000 and RMB22,743,000 are issued to Tongxiang Huarui, Jushi Group, China Jushi, Shanghai Tianshi and Yushi International (as defined in note 28), for the settlement of raw materials and services from which the Group purchased and received.

As at 31 December 2017, bills payables amounted to RMB121,000, RMB14,049,000, RMB275,465,000, RMB1,476,000 and RMB15,245,000 are issued to Tongxiang Huarui, Jushi Group, China Jushi, Shanghai Tianshi and Yushi International, for the settlement of raw material and services from which the Group purchased and received.

32. CONTRACT LIABILITIES

	31/12/2018	01/01/2018*
	RMB'000	*RMB'000*
Sales of products	**4,038**	3,666
Current	**4,038**	3,666

* The amounts in this column are after adjustments for the application of IFRS 15.

32. CONTRACT LIABILITIES *(Continued)*

The following table shows how much of the revenue recognised in the current year relates to the carried-forward contract liabilities.

	Sales of products *RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year	3,666

Typical payment terms which impact on the contract liabilities recognised are as follows:

The Group typically receives a 50% deposit from some new customers when they sign the sale and purchase agreement, while the remaining 50% would be settled within the credit period after the control of the goods has been transferred. Before the control of the goods has been transferred, this deposit will give rise to contract liabilities. The deposits and advance payment schemes result in contract liabilities being recognised until the control of the goods has been transferred.

33. DEFERRED INCOME

	31/12/2018 ***RMB'000***	31/12/2017 *RMB'000*
Arising from government grant	**3,000**	3,000
Current liabilities	**300**	300
Non-current liabilities	**1,650**	1,950
	1,950	2,250

During the year ended 31 December 2014, Hengshi Fiberglass received a government grant amounted to RMB3,000,000, which was a subsidy related to the purchase of certain manufacturing equipment, which shall be charged to profit or loss over the useful lives of these assets when they become ready to use. The manufacturing equipment were put into use during the year ended 31 December 2015 and RMB300,000 (2017: RMB300,000) had been credited to profit or loss as government grant for the year ended 31 December 2018.

34. SHARE CAPITAL

The Company was incorporated on 23 February 2015 and became the holding company of the entities now comprising the Group in April 2016.

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

	Number of shares	Amount
		USD
Ordinary shares of US$0.001 each		
Authorised		
As at 31 December 2018 and 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$0.001each)			
As at 31 December 2018 and 2017	1,000,000,000	1,000,000	6,207

35. OPERATING LEASES

The Group as lessee

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

	31/12/2018 *RMB'000*	31/12/2017 *RMB'000*
Within one year	1,865	1,738
In the second to fifth year inclusive	5,442	856
	7,307	2,594

The Group as lessor

Property rental income earned during the year ended 31 December 2018 was RMB685,000 (2017: nil).

36. CAPITAL COMMITMENTS

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

	31/12/2018 *RMB'000*	31/12/2017 *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment, contracted for but not provided for in the consolidated financial statements	20,637	15,733

37. CAPITAL RISK MANAGEMENT

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

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

The directors of the Company review the capital structure on a regular basis. As part of the view, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debts or the redemption of existing debt.

38. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	31/12/2018 *RMB'000*	31/12/2017 *RMB'000*
Financial Assets		
Loans and receivables (including cash and cash equivalents)	**1,267,232**	1,036,728
Financial assets at FVTPL	**2,265**	6,321
Total	**1,269,497**	1,043,049
Financial Liabilities		
Financial liabilities at FVTPL	**15,142**	–
Other financial liabilities	**674,406**	529,651
Total	**689,548**	529,651

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

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

Market risk

(i) Currency risk

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. During the year ended 31 December 2018, approximately 51.7% (2017: 62.2%) of the Group's sales is denominated in currencies other than the functional currencies of the respective group entities. The Group currently does not have a formal foreign currency hedging policy but use foreign currency forward contracts to hedge against the risk when it is foreseen foreign currency exposure to be significant. Those foreign exchange forward contracts are exposed to fair value risk with the fluctuation of forward exchange rate. Details of the foreign currency forward contracts entered into by the Group and outstanding at the end of the reporting period are set out in note 23. The management manages the foreign currency risk by closely monitoring the movement in the foreign exchange rates.

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

	Assets		Liabilities	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
USD	**332,921**	357,296	**23,056**	65,063
EUR	**25,749**	13,781	**525**	26
HKD	**42**	750	**–**	–
JPY	**4**	3	**–**	–
	358,716	371,830	**23,581**	65,089

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk (Continued)

Sensitivity analysis

Most of the Group's foreign currency transactions are denominated in USD and EUR and the Group is mainly exposed to the foreign exchange risk arising from these currencies.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in USD and EUR against the functional currencies, 5% (2017: 5%) is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes (i) outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (31 December 2017: 5%) change in foreign currency rate; and (ii) foreign currency forward contracts entered into by the Group and outstanding at the end of the reporting period and adjusts their translation at the end of the reporting period for a 5% (31 December 2017: 5%) change in forward foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit and other equity where the relevant foreign currencies strengthen 5% (2017: 5%) against relevant currencies. For a 5% (31 December 2017: 5%) weakening of the relevant foreign currency against functional currencies, there would be a comparable impact on the post-tax profit and other equity, and the balances below would be negative.

	Currency USD Impact		Currency EUR Impact	
	2018	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit or Loss	**1,801**	10,810	**1,009**	566
Equity	**1,801**	10,810	**1,009**	566

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

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged bank deposits (see note 29 for details). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances (see note 29 for details). The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Group aims at keeping bank balances at variable rates. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook.

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk (Continued)

Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2018 *RMB'000*
Other income	
Financial assets at amortised cost	**9,145**

Total interest income from financial assets that are measured at amortised cost is as follows:

	Year ended 31/12/2017 RMB'000
Other income	
Loans and receivables (including bank balances and cash)	5,960

Interest expense on financial liabilities not measured at fair value through profit or loss:

	Year ended 31/12/2018 *RMB'000*	Year ended 31/12/2017 *RMB'000*
Financial liabilities at amortised cost	**52**	60

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2017: 10 basis points) increase or decrease in variable-rate bank balances are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points (2017: 10 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would increase/decrease by RMB233,000 (2017: increase/decrease by RMB244,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counter parties arose from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

Trade receivables and amounts due from related parties arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade receivables and amounts due from related parties individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) individually for other receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Bank balances and bills receivables

The credit risks on bank balances and bills receivables are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk as 11.6% (31 December 2017: 19.4%) and 61.3% (31 December 2017: 59.8%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ amounts due from related parties	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information develop internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

2018	*Notes*	Internal credit rating	12-month or lifetime ECL	Gross carrying amount *RMB'000*	*RMB'000*
Financial assets at amortised cost					
Pledged bank deposits	*29*	N/A	12-month ECL	203,884	203,884
Bank balances	*29*	N/A	12-month ECL	311,270	311,270
Other receivables	*25*	*(Note 1)*	12-month ECL	6,380	6,380
Bills receivables	*27*	Low risk	12-month ECL	223,687	223,687
Trade related receivables, including trade receivables and amounts due from related parties	*25, 28*	*(Note 2)*	Lifetime ECL (provision matrix)	47,134	
		Watch list	Lifetime ECL	484,085	
		Loss	Credit-impaired	29,301	560,520

Notes:

1. For the purpose of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due *RMB'000*	Not past due/ No fixed repayment terms *RMB'000*	Total *RMB'000*
Other receivables	–	6,380	6,380

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes: (Continued)

2. For trade receivables and amounts due from related parties for contracts with customers, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or credit-impaired, the Group determines the expected credit losses on these items by using a provision matrix grouped by shared credit risk characteristics.

Provision matrix – debtors' aging

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 for trade related receivables, including trade receivables and amounts due from related parties for contracts with customers which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Trade related receivables, including trade receivables and amounts due from related parties with significant outstanding balances or credit-impaired with gross carrying amounts of RMB484,085,000 and RMB29,301,000 respectively as at 31 December 2018 were assessed individually.

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Provision matrix – debtors' aging (Continued)

	Average loss rate %	Trade receivables *RMB'000*	Amounts due from related parties *RMB'000*
Current (not past due)	–	29,270	2,003
Within 90 days past due	1.0%	720	–
91 to 180 days past due	2.0%	8,965	2,138
181 days to 1 year past due	20.0%	3,772	–
1 to 2 years past due	100.0%	266	–
Over 2 years	100.0%	–	–
		42,993	4,141

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 year ended 31 December 2018, the Group provided RMB984,000 impairment allowance for trade related receivables based on the provision matrix. There is a reversal of impairment allowance of RMB794,000 on trade related receivables based on the provision matrix.

Impairment allowance of RMB4,577,000 were made on trade related receivables with significant or credit-impaired balances.

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Provision matrix – debtors' aging (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade related receivables under the simplified approach.

	Lifetime ECL (not credit-impaired *RMB'000*	Lifetime ECL (credit-impaired) *RMB'000*	Total *RMB'000*
As at 31 December 2017 under IAS 39	–	33,751	33,751
Adjustment upon application of IFRS 9	–	–	–
As at 1 January 2018 – As restated	–	33,751	33,751
Transfer to not credit-impaired	4,450	(4,450)	–
Impairment losses recognised	5,561	–	5,561
Impairment losses reversed	(794)	–	(794)
Write-offs	–	–	–
As at 31 December 2018	9,217	29,301	38,518

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group writes off trade receivables and amounts due from related parties when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over five years past due, whichever occurs earlier.

Liquidity risk

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

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

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

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

38. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

Liquidity tables

	Weighted average effective interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1 year to 5 years	Total undiscounted cash flows	Carrying amounts
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018							
Non-derivative financial liabilities							
Trade and other payables	–	1,786	72,934	–	–	74,720	74,720
Bills payables	–	49,932	50,606	283,512	–	384,050	384,050
Amounts due to related parties	–	411	215,225	–	–	215,636	215,636
		52,129	338,765	283,512	–	674,406	674,406
Derivatives net settlement							
Foreign exchange forward contract	2.57%	1,357	2,571	11,424	–	15,352	15,142
As at 31 December 2017							
Non-derivative financial liabilities							
Trade and other payables	–	703	173,674	–	–	174,377	174,377
Bills payables	–	8,021	138,681	205,529	–	352,231	352,231
Amounts due to related parties	–	–	3,043	–	–	3,043	3,043
		8,724	315,398	205,529	–	529,651	529,651

The Group's available banking financing facilities amounts to RMB341,327,000 (31 December 2017: RMB355,678,000) were unused as at 31 December 2018, which is subject to approval on a case by case basis. The Group expects to meet its other obligations from internal operating cash flows and maturity of financial assets.

38. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair Value measurements of financial instruments

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

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

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

Financial assets (liabilities)	Fair value as at 31/12/2018 *RMB'000*	Fair value as at 31/12/2017 *RMB'000*	Fair value hierarchy	Valuation technique(s) and key input(s)
Foreign currency forward contracts	**Assets: 2,265 and Liabilities: 15,142**	Assets: 6,321	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the year) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties

Except for those set out above, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

39. PLEDGE OF ASSETS

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Property, plant and equipment	**132,605**	115,489
Prepaid lease payments	**25,331**	–
	157,936	115,489

40. RETIREMENT BENEFITS PLANS

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

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

The amount of contributions made by the Group in respect of the retirement benefit schemes during the year ended 31 December 2018 is RMB4,436,000 (2017: RMB5,175,000).

41. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	At 1 January 2018	Financing cash flows-in	Financing cash flow-out	Dividend declared	Interest expense	At 31 December 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank borrowings	–	1,323	(1,323)	–	–	–
Interest Payables	–	–	(52)	–	52	–
Dividend payable	–	–	(86,400)	86,400	–	–
	–	1,323	(87,775)	86,400	52	–

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

42. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship	Nature of transaction	Year ended 31/12/2018 *RMB'000*	31/12/2017 *RMB'000*
Yushi International	*note 28(i)*	Services charges incurred	**59,848**	53,904
		Value added tax paid on behalf of the Group	**–**	97
Sinosia Technology	*note 28(i)*	Prepaid administrative expenses paid on behalf of the Group	**–**	173
		Prepayment received for sales of finished goods	**–**	941
Inspirock Hotel Co., LTD.# (振石大酒店有限公司)	*note 28(i)*	Services charges incurred	**2,075**	1,583
Zhenshi Group	*note 28(i)*	Rental expense	**631**	111
		Sales of finished goods	**283**	192
		Service charges incurred	**–**	313
Tongxiang Huarui	*note 28(i)*	Purchase of property, plant and equipment	**784**	244
Tongxiang Chengshi	*note 28(i)*	Services charges incurred	**589**	470

42. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related party	Relationship	Nature of transaction	Year ended 31/12/2018 RMB'000	31/12/2017 RMB'000
Tongxiang Kangshi Traditional Chinese and Western Medical Clinic Company Limited.# (桐鄉康石中西醫結合門診有限公司)	*note 28(i)*	Services charges incurred	**380**	347
Zhejiang Meishi New Materials Co., LTD.# (浙江美石新材料有限公司)	*note 28(i)*	Rental expense incurred	**99**	–
Quartz Logistics, Inc.	*note 28(i)*	Services charges incurred	**65**	–
Zhengshi Yongchang Composites Co., LTD.# (振石永昌複合材料有限公司)	*note 28(i)*	Sales of finished goods	**–**	773
China Jushi	*note 28(ii)*	Purchase of raw materials	**620,040**	495,152
		Scrap sales earned	**762**	626
Jushi Egypt for Fiberglass Industry S.A.E.	*note 28(ii)*	Purchase of raw materials	**75,763**	27,554
		Scrap sales earned	**156**	89
		Rental expense incurred	**267**	153
		Services charges incurred	**254**	105
		Rental income earned	**–**	60
Jushi Group	*note 28(ii)*	Purchase of raw materials	**23,499**	15,088

42. RELATED PARTY TRANSACTIONS *(Continued)*

Name of related party	Relationship	Nature of transaction	Year ended 31/12/2018 RMB'000	31/12/2017 RMB'000
Jushi Group (BZ)	*note 28(ii)*	Sales of finished goods	**5,990**	5,683
P-D Jushi	*note 28(ii)*	Purchase of raw materials	**4,439**	3,844
		Rental expense incurred	**16**	16
Jushi USA	*note 28(ii)*	Rental expense incurred	**576**	660
		Purchase of raw materials	**–**	404
Jushi Group (HK)	*note 28(ii)*	Sales of finished goods	**1,800**	1,660
Jushi India	*note 28(ii)*	Sales of finished goods	**1,691**	1,521
Jushi Spain	*note 28(ii)*	Sales of finished goods	**702**	1,016
Jushi Canada	*note 28(ii)*	Sales of finished goods	**693**	797
China Jushi USA Corporation	*note 28(ii)*	Rental income earned	**680**	–
Temax Italia	*note 28(ii)*	Sales of finished goods	**355**	530
Jushi Japan	*note 28(ii)*	Sales of finished goods	**95**	–
Jushi France	*note 28(ii)*	Sales of finished goods	**–**	589
		Prepayment received for sales of finished goods	**–**	82
Shanghai Tianshi	*note 28(iii)*	Services charges incurred	**33,973**	20,124
Tianshi MISR for Shipping and Logistics Services LTD	*note 28(iii)*	Services charges incurred	**7,436**	–

Certain trademarks owned by Zhenshi Group were used by the Group for free for both current and prior years.

42. RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

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

	Year ended 31/12/2018 ***RMB'000***	Year ended 31/12/2017 *RMB'000*
Fee, Salaries and other benefits	**7,490**	6,014
Performance related bonus *(note)*	**279**	272
Retirement benefit schemes contribution	**120**	135
	7,889	6,421

Note:

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

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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

Name of subsidiary	Principal activities	Place of incorporation establishment/ operations	Issued and fully paid capital/ registered capital		Proportion of ownership interest and voting power held by the Company	
			31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
Directly held						
Huaxu Investment	Investment holding	BVI	**Ordinary Share USD149,089,001**	Ordinary Share USD149,089,001	**100%**	100%
Hengshi USA Company Limited	Sales of fiberglass fabrics	USA	**Ordinary Share USD200,000**	Ordinary Share USD200,000	**100%**	100%
Hengshi Hong Kong Company Limited	Sales of fiberglass fabrics	Hong Kong	**Ordinary Share USD500,000**	Ordinary Share USD500,000	**75%**	75%
Indirectly held						
Huajin Capital	Investment holding	Hong Kong	**Ordinary Share USD149,089,100**	Ordinary Share USD149,089,100	**100%**	100%
Hengshi Fiberglass *(note a)*	Manufacture and sales of fiberglass fabrics	PRC	**Registered capital USD137,840,000**	Registered capital USD137,840,000	**100%**	100%
Tongxiang Hengxian *(note a)*	Import and export of products and technique	PRC	**Registered capital RMB500,000**	Registered capital RMB500,000	**100%**	100%
Hengshi Turkey *(note b)*	Sales of fiberglass fabrics	Turkey	**Ordinary Share USD2,400,000**	NA	**85%**	NA
Hengshi Egypt	Manufacture and sales of fiberglass fabrics	Egypt	**Ordinary Share USD16,500,000**	Ordinary Share USD16,500,000	**97.88%**	97.88%
Hengshi USA Wind Power Materials Corporation	Manufacture and sales of fiberglass fabrics	USA	**Ordinary Share USD3,500,000**	Ordinary Share USD3,500,000	**100%**	100%

Notes:

(a) Wholly foreign-owned enterprise.

(b) The entity was newly incorporated during the year ended 31 December 2018.

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

44. EVENTS AFTER THE REPORTING PERIOD

The European Commission published a notice on 21 February 2019 to initiate an anti-dumping investigation against glass fiber fabrics originating from China 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 increase, which may have certain effect on the sales, market and profitability of the Group's corresponding products in the European Union in the future.

45. FINANCIAL INFORMATION OF THE COMPANY

The Company had the following assets and liabilities as at 31 December 2018 and 2017.

	Year ended 31/12/2018 ***RMB'000***	Year ended 31/12/2017 *RMB'000*
Non-current asset		
Interest in subsidiaries	**1,039,842**	1,037,833
Current asset		
Bank and cash	**665**	805
Current liability		
Amount due to a subsidiary	**2,289**	–
	2,289	–
Net current (liabilities) assets	**(1,624)**	805
Total assets less current liability	**1,038,218**	1,038,638
Capital and reserves		
Share capital	**6,207**	6,207
Reserves	**1,027,832**	1,028,252
Total Equity	**1,034,039**	1,034,459
Non-current liability	**4,179**	4,179
	1,038,218	1,038,638

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

	Share premium *RMB'000*	Other reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2017	1,021,918	–	28,700	1,050,618
Total comprehensive income for the year	–	–	60,967	60,967
Waiver of listing expense previously charged to share premium	5,167	–	–	5,167
Payment of 2016 final dividends	–	–	(88,500)	(88,500)
At 31 December 2017	1,027,085	–	1,167	1,028,252
Total comprehensive income for the year	–	–	86,630	86,630
Payment of 2017 final dividends	–	–	(87,050)	(87,050)
At 31 December 2018	1,027,085	–	747	1,027,832

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2019.