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CHINA HENGSHI FOUNDATION COMPANY LIMITED

中國恒石基業有限公司

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

(Stock code: 1197)

Continuing Connected Transactions

The Board is pleased to announce that on 29 December 2017 (after trading hours), the Company entered into (i) the 2018 Yushi International Framework Agreement with Yushi International in relation to the procurement of Logistics Services from Yushi International by the Group, and (ii) the 2018 Shanghai Tianshi Framework Agreement with Shanghai Tianshi in relation to the procurement of Export Agent Services from Shanghai Tianshi by the Group, both for a term of one year commencing from 1 January 2018 and ending on 31 December 2018.

Mr. Zhang Yuqiang is the chairman of the Board, a non-executive Director and the ultimate controlling shareholder of the Company. Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital as at the date of this announcement, is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company under the Listing Rules. As Zhenshi holds 92.859% of registered capital of Yushi International as at the date of this announcement, Yushi International is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2018 Yushi International Framework Agreement constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Mr. Zhang Jiankan is a non-executive Director. Shanghai Tianshi, of which Mr. Zhang Jiankan is interested in 70% of the registered capital as at the date of this announcement, is an associate of Mr. Zhang Jiankan and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2018 Shanghai Tianshi Framework Agreement constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios calculated based on the annual caps in respect of the transactions contemplated under each of the 2018 Yushi International Framework Agreement and the 2018 Shanghai Tianshi Framework Agreement, is more than 0.1% but less than 5%, the transactions contemplated under each of the 2018 Yushi International Framework Agreement and 2018 Shanghai Tianshi Framework Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the circular (including the independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 29 December 2017 (after trading hours), the Company entered into (i) the 2018 Yushi International Framework Agreement with Yushi International in relation to the procurement of Logistics Services from Yushi International by the Group, and (ii) the 2018 Shanghai Tianshi Framework Agreement with Shanghai Tianshi in relation to the procurement of Export Agent Services from Shanghai Tianshi by the Group, both for a term of one year commencing from 1 January 2018 and ending on 31 December 2018.

PROCUREMENT OF LOGISTICS SERVICES FROM YUSHI INTERNATIONAL

Principal terms of the 2018 Yushi International Framework Agreement

Date: 29 December 2017

Parties: (i) the Company (as purchaser); and
(ii) Yushi International (as seller)

Term: From 1 January 2018 to 31 December 2018

Description of future transaction and principal terms

Pursuant to the 2018 Yushi International Framework Agreement, Yushi International agrees to continue to provide Logistics Services to the Group from 1 January 2018 to 31 December 2018 and agrees that:

- (a) it will not provide any Logistics Services to any independent third party unless it has first satisfied the needs of the Group for such services;
- (b) if it cannot satisfy the need of the Group for Logistic Services or if independent third parties can offer terms more favorable than those offered

by it, the Group is entitled to procure logistic services from independent third parties;

- (c) it is entitled to provide Logistics Services to independent third parties provided that this will not affect its provision of Logistics Services to the Group;
- (d) it will not, and will procure its subsidiaries (if any) not to, provide Logistics Services or other services to the Group on terms which are less favorable than those offered to independent third parties; and
- (e) the 2018 Yushi International Framework Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

Price determination

The Group conducts a competitive tender process at the beginning of each year to select the logistics agents which will provide Logistics Services to the Group during the year. During the competitive tender process, the Company seeks quotations from at least three logistics agents. Logistics agents which are invited to submit quotations may include logistics agents which provided or have been providing export agency services to the Group and other logistics agents which have the capability for offering Logistics Services required by the Group. The Group assesses the candidates 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 Logistics Services to the Group according to a further negotiated pre-determined price schedule for a term of one year. If the selected logistics agent wishes to deviate from the pre-determined price schedule in providing a Logistic Services to the Group under special circumstances, the Company will seek quotations from at least two other logistics agents and may exercise its right to procure that the Logistics Service from another logistics agent which offers better terms to the Group. This pricing mechanism ensures that the pricing terms at which the Group solicits the Logistics Services from a logistics agent are fair and reasonable.

Historical transaction amounts

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group's expenditure payable to Yushi International was RMB42.585 million, RMB54.05 million and RMB29.368 million, respectively.

Proposed annual cap

The proposed annual cap for the transactions under the 2018 Yushi International Framework Agreement from 1 January 2018 to 31 December 2018 is approximately RMB61.393 million.

The proposed annual cap for the transactions under the 2018 Yushi International Framework Agreement have been determined after arm's length negotiation with reference to the following factors: (i) historical transaction values; (ii) the projected growth of the sale of our products; (iii) the forecast of international and PRC freight fee; (iv) the expected mix of international and PRC orders; and (v) the expected proportion of Logistics Services to be provided by Yushi International.

Reasons for, and benefits of, the 2018 Yushi International Framework Agreement

The Group appointed a logistics agent to provide Logistics Services to the Group. Yushi International has been appointed on an annual basis as one of its logistics agents following competitive tender processes since 2013 to provide the Logistics Services to the Company.

The Directors, including the independent non-executive Directors, are of the view that the transactions under the 2018 Yushi International Framework Agreement (together with the proposed annual cap) are in the ordinary and usual course of the Group's business, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, and the terms of the 2018 Yushi International Framework Agreement (together with the proposed annual cap) are fair and reasonable.

Mr. Zhang Yuqiang, Mr. Wang Yuan and Mr. Zhang Jiankan, all being directors of the Company and Zhenshi, are considered to have a material interest in the 2018 Yushi International Framework Agreement, and therefore abstained from voting on the resolutions of the Board for considering and approving the 2018 Yushi International Framework Agreement.

PROCUREMENT OF EXPORT AGENCY SERVICES FROM SHANGHAI TIANSHI

Principal terms of the 2018 Shanghai Tianshi Framework Agreement

Date: 29 December 2017

Parties: (i) the Company (as purchaser); and
(ii) Shanghai Tianshi (as seller)

Term: From 1 January 2018 to 31 December 2018

Description of future transaction and principal terms

Pursuant to the 2018 Shanghai Tianshi Framework Agreement, Shanghai Tianshi agrees to continue to provide Export Agency Services to the Group from 1 January 2018 to 31 December 2018 and agrees that:

- (a) it will not provide Export Agency Services to any independent third party unless it has satisfied the needs of the Group for such services;
- (b) if it cannot satisfy the need of the Group for Export Agency Services or if independent third parties can offer terms more favorable than those offered by it, the Group is entitled to procure export agency services from independent third parties;
- (c) it is entitled to provide export agency services to independent third parties provided that this will not affect its provision of export agency services to the Group;
- (d) it will not, and will procure its subsidiaries (if any) not to, provide export agency services or other services to the Group on terms which are less favorable than those offered to independent third parties; and
- (e) the 2018 Shanghai Tianshi Framework Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

Price determination

The Group conducts a competitive tender process at the beginning of each year to select the export agents which will provide Export Agency Services to the Group during the year. During the competitive tender process, the Group seeks quotations from at least three export agents. Export agents which are invited to submit quotations may include export agents which provided or have been providing Export Agency Services to the Group and other export agents which have the capability for offering the Export Agency Services required by the Group. The Group assesses the candidates 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 Agency Services to the Group according to a further negotiated pre-determined price schedule for a term of one year. If the selected export agent wishes to deviate from the pre-determined price schedule in providing an export agency service to the Group under special circumstances, the Group will seek quotations from at least two other export agents and may exercise its right to procure that export agency service from an export agent which offers better terms to the Group. This pricing mechanism ensures that the pricing terms at which the Group solicits export agency services from an expert agent are fair and reasonable.

Historical transaction amounts

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group's expenditure in relation to the Export Agency Services provided by

Shanghai Tianshi was approximately RMB11.05 million, RMB14.96 million and RMB14.04 million, respectively.

Proposed annual cap

The proposed annual cap for the transactions under the 2018 Shanghai Tianshi Framework Agreement from 1 January 2018 to 31 December 2018 is approximately RMB40.928 million.

The proposed annual cap for the transactions under the 2018 Shanghai Tianshi Framework Agreement have been determined after arm's length negotiations with reference to the following factors: (i) historical transaction values; (ii) the projected growth of the sale of our products; (iii) the forecast of international freight fee; (iv) the expected mix of the Group's orders; and (v) the expected proportion of export agency services to be provided by Shanghai Tianshi.

Reasons for, and benefits of, the 2018 Shanghai Tianshi Framework Agreement

The Group engages export agents to provide export-related services including freight booking and customs clearance to export its fiberglass fabric products to its customers overseas. Shanghai Tianshi has been appointed on an annual basis as one of its export agents following a competitive tender process since 2012 to provide export agency service to the Group. The Group uses mainly Shanghai Tianshi, which is based in Shanghai, to export its fiberglass fabric products through Shanghai and Egypt to its customers in the Americas, European and other places.

The Directors, including the independent non-executive Directors, are of the view that the transactions under the 2018 Shanghai Tianshi Framework Agreement (together with the proposed annual cap) are in the ordinary and usual course of the Group's business, on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, and the terms of the 2018 Shanghai Tianshi Framework Agreement (together with the proposed annual cap) are fair and reasonable.

Mr. Zhang Jiankan, being directors of the Company and Shanghai Tianshi, is considered to have a material interest in the 2018 Shanghai Tianshi Framework Agreement, and therefore abstained from voting on the resolutions of the Board for considering and approving the 2018 Shanghai Tianshi Framework Agreement. Mr. Zhang Yuqiang, the father of Mr. Zhang Jiankan, also abstained from voting on the resolutions of the Board for considering and approving the 2018 Shanghai Tianshi Framework Agreement.

GENERAL INFORMATION

Information on the Group

As the world's leading manufacturer and supplier of fiberglass fabrics used in wind turbine blades, the Group is mainly engaged in the researching, developing, manufacturing and selling of fiberglass fabrics with various technical specifications.

Information on Yushi International

Yushi International is a company established in the PRC with limited liability. It is mainly engaged in businesses including goods transportation, international freight agency, export and import agency, customs clearance and declaration agency.

Information on Shanghai Tianshi

Shanghai Tianshi is a limited company established in the PRC. It is mainly engaged in businesses including international freight agency, inspection and quarantine agency for export and import freights.

LISTING RULES IMPLICATIONS

Mr. Zhang Yuqiang is the chairman of the Board, a non-executive Director and the ultimate controlling shareholder of the Company. Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital as at the date of this announcement, is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company under the Listing Rules. As Zhenshi holds 92.859% of registered capital of Yushi International as at the date of this announcement, Yushi International is an associate of Mr. Zhang Yuqiang and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2018 Yushi International Framework Agreement constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

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As one or more of the applicable percentage ratios calculated based on the annual caps in respect of the transactions contemplated under each of the 2018 Yushi International Framework Agreement and the 2018 Shanghai Tianshi Framework Agreement, is more than 0.1% but less than 5%, the transactions contemplated under each of the 2018 Yushi International Framework Agreement and 2018 Shanghai Tianshi Framework Agreement are subject to the reporting, announcement and annual review requirements, but are exempt from the circular (including the independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“2018 Shanghai Tianshi Framework Agreement”	the framework agreement dated 29 December 2017 between the Company and Shanghai Tianshi in relation to the procurement of Export Agency Services from Shanghai Tianshi by the Group
“2018 Yushi International Framework Agreement”	the framework agreement dated 29 December 2017 between the Company and Yushi International in relation to the procurement of Logistics Services from Yushi International by the Group
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Hengshi Foundation Company Limited (中國恒石基業有限公司), a company incorporated in Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1197)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the directors of the Company
“Export Agency Services”	export agency services to be provided to the Group by Shanghai Tianshi, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Group to its customers overseas in its ordinary and usual course of business

“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Logistics Services”	logistics services to be provided to the Company by Yushi International, including (i) transporting the fiberglass purchased by the Company from China Jushi Co., Ltd. (中國巨石股份有限公司) and its subsidiaries to the production plants of the Group; (ii) providing to the Group export agency services, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Group to its customers overseas, and (iii) providing to the Group import agency services, including customs declaration and domestic transportation, in respect of imported raw materials
“Mr. Zhang Jiankan”	Mr. Zhang Jiankan, a non-executive Director
“Mr. Zhang Yuqiang”	Mr. Zhang Yuqiang, the chairman of the Board, a non-executive Director and one of the controlling shareholders of the Company
“PRC”	the People’s Republic of China, and for the purposes of this announcement, excluding Hong Kong, Macao Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Tianshi”	Shanghai Tianshi International Logistics Company Limited (上海天石國際貨運代理有限公司), a company established in the PRC with limited liability. Mr. Zhang Jiankan is interested in 70% of the registered capital of Shanghai Tianshi
“Shareholder(s)”	holder(s) of the shares of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yushi International”	Zhenshi Group Zhejiang Yushi International Logistics Company Limited (振石集團浙江宇石國際物流有限公司), a company established in the PRC with limited liability. Zhenshi is interested in 92.859% of the registered capital of Yushi International
“Zhenshi”	Zhenshi Holding Group Co., Ltd. (振石控股集團有限公司), a company established in the PRC with limited liability. Mr. Zhang Yuqiang and Mr. Zhang Jiankan are interested in 70.28% and 25.23% of the registered capital of Zhenshi, respectively
“%”	per cent

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

Hong Kong, 1 January 2018

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

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

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

Independent non-executive Directors: **Mr. XIE Guoping, Mr. PAN Fei, Mr. CHEN Zhijie**