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)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus of China Hengshi Foundation Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 8 December 2015 (the "**Prospectus**") in relation to the global offering (the "**Global Offering**") of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the 2016 interim report of the Company (the "**2016 Interim Report**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Prospectus.

After the deduction of the listing expenses, the gross net proceeds from the Global Offering amounted to approximately RMB400.4 million ("**IPO Proceeds**"). As disclosed in the section headed "Future Plans and Use of Proceeds" in the Prospectus and further disclosed in the 2016 Interim Report, the Company intended to use the IPO Proceeds for the following purposes:

- approximately 45% (approximately RMB180.2 million) will be used to support the Hengshi Phase IV Expansion Plan;
- approximately 30% (approximately RMB120.1 million) will be used for partial repayment of bank loans;
- approximately 15% (approximately RMB60.1 million) will be used for purchase of a property from Zhenshi in Tongxiang, Zhejiang province; and
- approximately 10% (approximately RMB40.0 million) will be used as general working capital of the Group.

As at the date of this announcement, proceeds for the Hengshi Phase IV Expansion Plan of approximately RMB148.0 million remained unutilised, whereas the rest of the net proceeds from the Global Offering was fully utilised.

CHANGE IN USE OF PROCEEDS

The Board has resolved to lower the production capacity of the Hengshi Phase IV Expansion Plan and implement the Group's expansion of production capacity in the United States (the "**U.S. Expansion Plan**"). In respect of RMB110.0 million out of the RMB148.0 million unutilised proceeds originally for the Hengshi Phase IV Expansion Plan, RMB60.0 million thereof would be invested in the U.S. Expansion Plan, and RMB50.0 million thereof would be utilised for partial repayment of bank loans (the "**Proposed Change**"). Save for the above, the proposed use of net proceeds from the Global Offering remains unchanged.

The below table summarises the breakdowns in relation to the use of the IPO Proceeds and utilised and unutilised IPO Proceeds before and immediately after the Proposed Change:

Use	**Proposed use of IPO Proceeds in the Prospectus**	**IPO Proceeds utilised as at the date of this announcement**	**Balance of unutilised IPO Proceeds as at the date of this announcement and before the Proposed Change**	**Proposed change in use of the IPO Proceeds**	**Balance of unutilised IPO Proceeds immediately after the Proposed Change**
	(RMB' million) approximately	*(RMB' million) approximately*	*(RMB' million) approximately*	*(RMB' million) approximately*	*(RMB' million) approximately*
Hengshi Phase IV Expansion Plan	180.2	32.2	148.0	70.2	38.0
Among which:					
Acquisition of land use rights	24.0	0.0	24.0	0.0	0.0
Construction of production facilities	57.0	17.9	39.1	27.3	9.4
Purchase of manufacturing equipment and ancillary equipment	99.2	14.3	84.9	42.9	28.6
U.S. Expansion Plan	-	-	-	60.0	60.0
Repayment of bank loans	120.1	120.1	0.0	170.1	50.0
Purchase of property	60.1	60.1	0.0	60.1	0.0
Working capital	40.0	40.0	0.0	40.0	0.0
Total	**400.4**	**252.4**	**148.0**	**400.4**	**148.0**

REASONS FOR THE CHANGE IN USE OF PROCEEDS

The Board assesses and evaluates the development needs of the Group from time to time for the purpose of optimal allocation and deployment of the Group's financial resources.

It was noted that:

(i) the market conditions of the PRC and overseas wind power markets saw significant changes in 2016. The performance of the PRC wind power market was below expectation due to continuous slowdown of the economic growth of the PRC and industrial policies, whereas the overseas wind power market (in particular the North American and European markets) maintained a healthy momentum of steady growth;

(ii) in the first half of 2016, the Group has recorded a healthy growth in its performance, benefiting from the significant increase in sales revenue in the overseas markets. For the six months ended 30 June 2016, the total sales revenue of the Group increased by approximately 22.6% as compared with the same period in the preceding year. In particular, overseas market sales revenue increased by approximately 53.0% as compared with the same period in the preceding year, whereas sales revenue in the PRC decreased by approximately 4.8% as compared with the same period in the preceding year. Overseas sales revenue accounts for an increase of approximately 11.8% to approximately 59.2% of the total revenue (six months ended 30 June 2015: 47.4%), while sales revenue in the PRC decreased to approximately 40.8% (six months ended 30 June 2015: 52.6%).

The table below sets out the growth in the Group's sales revenue in its overseas markets (in particular the European and North American markets) and the corresponding percentages of total sales revenue of the Group:

Region and percent-age / Period	Europe		North America		Overseas markets	
	Increase in sales revenue as compared with the same period in the preceding year *approximately*	Percentage of total sales revenue of the Group *approximately*	Increase in sales revenue as compared with the same period in the preceding year *approximately*	Percentage of total sales revenue of the Group *approximately*	Increase in sales revenue as compared with the same period in the preceding year *approximately*	Percentage of total sales revenue of the Group *approximately*
Six months ended 30 June 2015 [2]	36.4%	26.4%	33.1%	18.9%	14.4%	47.4%
Six months ended 31 December 2015 [1]	43.4%	28.0%	12.0%	15.2%	23.3%	50.7%
Six months ended 30 June 2016 [2]	43.7%	30.9%	37.4%	21.2%	53.0%	59.2%

Note 1: Based on audited financial data
Note 2: Based on unaudited financial data

(iii) in order to respond to the demands from overseas customers, there is a need to further enhance the ability to ensure supply to them and to shorten delivery time, thereby increasing the market shares in the international market; and

(iv) on 17 June 2016, China Jushi made an announcement to invest in and establish an 80,000 tonne fiberglass production line in the United States (the "**Jushi U.S. Project**"), and entered into an investment agreement. As set out in the Prospectus, China Jushi is the Group's long-term strategic partner and major supplier of raw materials. The commencement of the Jushi U.S. Project lays a solid foundation for the Company's U.S. Expansion Plan.

The Board resolves that:

(i) the production size of Hengshi Phase IV Expansion Plan be reduced, such that the expected annual designated production capacity of Hengshi Phase IV Expansion Plan will be adjusted to 9,064 tonnes (the planned annual designated production capacity set out in the Prospectus was 29,064 tonnes). The capital expenditure of Hengshi Phase IV Expansion Plan will accordingly be reduced, and RMB70.2 million of the IPO Proceeds will be utilitsed to complete the Hengshi Phase IV Expansion Plan;

(ii) the U.S. Expansion Plan shall be commenced. Its expected annual designated production capacity is approximately 30,000 tonnes, and the expected total capital expenditure is approximately RMB185.2 million. RMB60.0 million of the IPO Proceeds is expected to be utilised, and the remaining capital expenditure will be satisfied by the Group's operating cash flow and internal funds. Construction of production facilities for the U.S. Expansion Plan is expected to begin in the first half of 2017, and to be put into operation by the end of 2018. The Board takes the view that the U.S. Expansion Plan would further enhance the efficiency of the Group's supply chain to overseas customers, shorten the delivery time, enhance the ability to secure supply goods, thereby increasing the Group's share in overseas markets, and consolidating and improving the status of the Group as a leading global manufacturer and supplier of fiberglass fabrics used in wind turbine blades. Such aligns with the interests of the Group and its shareholders.

It should be noted that the U.S. Expansion Plan is still in its preliminary stage, and its expansion schedule and scale may be subject to change in view of factors such as relevant laws, regulations and policies in multiple states of the United States and the progress of various preliminary work in preparation of the implementation of the U.S. Expansion Plan.

(iii) On 26 August 2016, the Group took out a loan of RMB60.0 million from Bank of China Limited, Tongxiang Branch. The bank loan carries interest at a fixed market rate of 4.35%, and has to be fully repaid within one year. The Board believes that the Proposed Change could effectuate early repayment of the bank loan and would expect to reduce the total payable amount of interest to be paid annually by RMB2.2 million so as to further reduce the financial costs of the Group.

The Board considers that the Proposed Change is a more efficient deployment of the financial resources of the Group. In view of the above, all the Directors (including the independent non-executive Directors) consider the Proposed Change is fair and reasonable and in the best interest of the Company and its shareholders as a whole.

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

Hong Kong, 19 October 2016

As at the date of this announcement, the directors of the Company 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. FANG Xianbai, Mr. PAN Fei, Mr. CHEN Zhijie*