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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

References are made to the announcements of the Company dated 1 January 2018, 19 January 2018, and 23 January 2018 in relation to the 2018 Continuing Connected Transactions.

Considering the continuity of the transaction and the continuity of the cooperation, the Company is pleased to announce that on 19 March 2018 (after trading hours), the Company entered into (i) the 2019-2020 Yushi International Framework Agreement with Yushi International in relation to the procurement of the Logistics Services, and (ii) the 2019-2020 Shanghai Tianshi Framework Agreement with Shanghai Tianshi in relation to the procurement of the Export Agent Services, both for a term of two years commencing on 1 January 2019 and ending on 31 December 2020.

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 in 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 2019-2020 Yushi International Framework Agreement constitute continuing connected transactions 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 2019-2020 Shanghai Tianshi Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.82 of the Listing Rules, the transactions contemplated under the 2018 Yushi International Framework Agreement and the 2019-2020 Yushi International Framework Agreement should be aggregated with the transactions contemplated under the 2018 Shanghai Tianshi Framework Agreement and the 2019-2020 Shanghai Tianshi Framework Agreement.

As one or more of the applicable percentage ratios calculated based on the aggregate of the proposed annual caps in respect of the transactions contemplated under each of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions, is more than 5% but less than 25%, the transactions contemplated under each of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions are subject to the annual review, reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, the Independent Board Committee has been established to advise and provide recommendation to the Independent Shareholders on the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions (including the proposed annual caps) and to advise the Independent Shareholders on how to vote at the AGM.

Titan Financial has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions.

The Company will convene the AGM to consider and approve, among other things, the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions. A circular containing, among other things, (i) further details of the transactions contemplated under the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions and the respective proposed annual caps; (ii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee to the Independent Shareholders; and (iv) a notice to convene AGM, is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 10 April 2018.

INTRODUCTION

References are made to the announcements of the Company dated 1 January 2018, 19 January 2018, and 23 January 2018 in relation to the 2018 Continuing Connected Transactions.

Considering the continuity of the transaction and the continuity of the cooperation, the Company is pleased to announce that on 19 March 2018 (after trading hours), the Company entered into (i) the 2019-2020 Yushi International Framework Agreement with Yushi International in relation to the procurement of the Logistics Services, and (ii) the 2019-2020 Shanghai Tianshi Framework Agreement with Shanghai Tianshi in relation to the procurement of the Export Agent Services, both for a term of two years commencing on 1 January 2019 and ending on 31 December 2020.

PROCUREMENT OF LOGISTICS SERVICES FROM YUSHI INTERNATIONAL

Principal Terms of the 2019-2020 Yushi International Framework Agreement

Date:	19 March 2018
Parties:	(i) the Company (as purchaser); and (ii) Yushi International (as seller)
Term:	From 1 January 2019 to 31 December 2020

Description of future transaction and principal terms

Pursuant to the 2019-2020 Yushi International Framework Agreement, Yushi International agrees to continue to provide Logistics Services to the Group from 1 January 2019 to 31 December 2020 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 2019-2020 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 three years ended 31 December 2015, 2016 and 2017, the Group's expenditure payable to Yushi International was approximately RMB42.585 million, RMB54.05 million and RMB53.878 million, respectively.

Proposed annual caps

The below forecast of proposed annual caps for the years ending 31 December 2018, 2019 and 2020 in relation of procurement of Logistics Services from Yushi International under the 2018 Yushi International Framework Agreement and the 2019-2020 Yushi International Framework Agreement has been determined after arm's length negotiations with reference to the following factors:

- (a) historical transaction values;
- (b) the projected growth of the sale of our products;
- (c) the forecast of international and PRC freight fee;
- (d) the expected mix of international and PRC orders; and
- (e) the expected proportion of Logistics Services to be provided by Yushi International.

Proposed annual caps for the years ending 31 December 2018, 2019 and 2020

For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
61,393,000	74,097,000	89,085,000

Reasons for, and benefits of, the 2019-2020 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. Yushi International has extensive experience in handling the transportation needs of the Group's products and customer transportation requirements, and can provide logistics services and flexible arrangements for the Group on time and reliably, which is beneficial to the effective control of Group's transportation costs, packaging costs and storage costs.

The Directors (excluding the independent non-executive Directors whose opinion on the matter will be set forth in the circular after taking into account the advice of the Independent Financial Adviser in this regard and excluding Mr. Zhang Yuqiang, Mr. Wang Yuan and Mr. Zhang Jiankan, all being the directors of the Company and Zhenshi, are deemed to have material interests in the transactions contemplated under the 2019-2020 Yushi International Framework Agreement and therefore have abstained from voting on the resolutions of the Board for considering and approving the 2019-2020 Yushi International Framework Agreement) are of the view that the 2019-2020 Yushi International Framework Agreement (together with the proposed annual caps) 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 2019-2020 Yushi International Framework Agreement (together with the proposed annual caps) are fair and reasonable.

PROCUREMENT OF EXPORT SERVICES FROM SHANGHAI TIANSHI

Principal Terms of the 2019-2020 Shanghai Tianshi Framework Agreement

Date:	19 March 2018
Parties:	(i) the Company (as purchaser); and (ii) Shanghai Tianshi (as seller)
Term:	From 1 January 2019 to 31 December 2020

Description of future transaction and principal terms

Pursuant to the 2019-2020 Shanghai Tianshi Framework Agreement, Shanghai Tianshi agrees to continue to provide Export Agency Services to the Group from 1 January 2019 to 31 December 2020 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 2019-2020 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 three years ended 31 December 2015, 2016 and 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 RMB20.124 million, respectively.

Proposed annual caps

The below forecast of annual caps for the years ending 31 December 2018, 2019 and 2020 in relation of procurement of Export Agency Services from Shanghai Tianshi under 2018 Shanghai Tianshi Framework Agreement and the 2019-2020 Shanghai Tianshi Framework Agreement has been determined after arm's length negotiations with reference to the following factors:

- (a) historical transaction values;
- (b) the projected growth of the sale of our products;
- (c) the forecast of international freight fee;
- (d) the expected mix of the Group's orders; and
- (e) the expected proportion of Export Agency Services to be provided by Shanghai Tianshi.

Proposed annual caps for the years ending 31 December 2018, 2019 and 2020

For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
40,928,000	49,398,000	59,390,000

Reasons for, and benefits of, the 2019-2020 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 Services to the Group and there had been no material disruptions. 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 (excluding the independent non-executive Directors whose opinion on the matter will be set forth in the circular after taking into account the advice of the Independent Financial Adviser in this regard and excluding Mr. Zhang Yuqiang and Mr. Zhang Jiankan, all being Directors, are deemed to have material interests in the transactions contemplated under 2019-2020 Shanghai Tianshi Framework Agreement and therefore have abstained from voting on the resolutions of the Board for considering and approving the 2019-2020 Shanghai Tianshi Framework Agreement) are of the view that the 2019-2020 Shanghai Tianshi Framework Agreement (together with the proposed annual caps) 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 2019-2020 Shanghai Tianshi Framework Agreement (together with the proposed annual caps) are fair and reasonable.

GENERAL INFORMATION

Information of 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 of Yushi International

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

Information of Shanghai Tianshi

Shanghai Tianshi is a limited company registered and 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 in 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 2019-2020 Yushi International Framework Agreement constitute continuing connected transactions 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 2019-2020 Shanghai Tianshi Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.82 of the Listing Rules, the transactions contemplated under the 2018 Yushi International Framework Agreement and the 2019-2020 Yushi International Framework Agreement should be aggregated with the transactions contemplated under the 2018 Shanghai Tianshi Framework Agreement and the 2019-2020 Shanghai Tianshi Framework Agreement.

The aggregate of proposed annual caps for the years ending 31 December 2018, 2019 and 2020 in respect of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions are as follows:

The aggregate of proposed annual caps for the years ending 31 December 2018, 2019 and 2020

For the year ending 31 December 2018	For the year ending 31 December 2019	For the year ending 31 December 2020
(RMB)	(RMB)	(RMB)
102,321,000	123,495,000	148,475,000

As one or more of the applicable percentage ratios calculated based on the aggregate of the proposed annual caps in respect of the transactions contemplated under each of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions, is more than 5% but less than 25%, the transactions contemplated under each of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions are subject to the annual review, reporting, announcement, circular (including independent financial advice) and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In accordance with the Listing Rules, the Independent Board Committee has been established to advise and provide recommendation to the Independent Shareholders on the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions (including the proposed annual caps) and to advise the Independent Shareholders on how to vote at the AGM.

Titan Financial has been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions.

The Company will convene the AGM to consider and approve, among other things, the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions. A circular containing, among other things,

- (a) further details of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions and the respective proposed annual caps;
- (b) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions and the respective proposed annual caps;
- (c) the recommendation of the Independent Board Committee to the Independent Shareholders on the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions and the respective proposed annual caps; and
- (d) a notice to convene the AGM to consider and approve, among other things, the transactions contemplated under the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions and the respective proposed annual caps,

is expected to be despatched to the Shareholders in accordance with the Listing Rules on or before 10 April 2018.

DEFINITIONS

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

“2018 Continuing Connected Transactions”	the transactions contemplated under both the 2018 Yushi International Framework Agreement and the 2018 Shanghai Tianshi Framework Agreement
“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
“2019-2020 Continuing Connected Transactions”	the transactions contemplated under both the 2019-2020 Yushi International Framework Agreement and the 2019-2020 Shanghai Tianshi Framework Agreement
“2019-2020 Shanghai Tianshi Framework Agreement”	the framework agreement dated 19 March 2018 between the Company and Shanghai Tianshi in relation to the procurement of Export Agency Services from Shanghai Tianshi by the Group
“2019-2020 Yushi International Framework Agreement”	the framework agreement dated 19 March 2018 between the Company and Yushi International in relation to the procurement of Logistics Services from Yushi International by the Group
“AGM”	the forthcoming annual general meeting of the Company
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of the Company
“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 director(s) of the Company
“Export Agent 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 PRC
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors, namely Mr. Xie Guoping, Mr. Lou Hetong and Mr. Zhao Jun
“Independent Financial Adviser” or “Titan Financial”	Titan Financial Services Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions
“Independent Shareholders”	Shareholders who are not required to abstain from voting on relevant resolutions at the AGM due to their material interests in the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions
“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, 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”	Reminbi, 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. As at the date of this announcement, Mr. Zhang Jiankan is interested in 70% of the registered capital in 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. As at the date of this announcement, Zhenshi is interested in 92.859% of the registered capital in Yushi International
“Zhenshi”	Zhenshi Holding Group Co., Ltd. (振石控股集團有限公司), a company established in PRC with limited liability. As at the date of this announcement, Mr. Zhang Yuqiang and Mr. Zhang Jiankan are interested in 70.28% and 25.23% of the registered capital in Zhenshi, respectively
“%”	per cent

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

Hong Kong, 19 March 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. Lou Hetong, Mr. Zhao Jun