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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your Shares in China Hengshi Foundation Company Limited, you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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

**(Stock Code: 1197)**

**PROPOSALS FOR**  
**GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES,**  
**RE-ELECTION OF DIRECTORS,**  
**DECLARATION OF A FINAL DIVIDEND,**  
**2018 CONTINUING CONNECTED TRANSACTIONS,**  
**2019-2020 CONTINUING CONNECTED TRANSACTIONS**  
**AND**  
**NOTICE OF ANNUAL GENERAL MEETING**

*Independent Financial Adviser*  
*to the Independent Board Committee and the Independent Shareholders*



**Titan Financial Services Limited**

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Capitalised terms used in this cover page shall have the same meanings as those defined in the section “Definitions” of this circular.

A notice convening the Annual General Meeting to be held at Inspirock Hotel, 199 Zhenxing East Road, Tongxiang, Zhejiang Province, the PRC on 11 May 2018 at 3:00 p.m. is set out on pages 74 to 79 of this circular.

A form of proxy for use at the Annual General Meeting is also enclosed with this circular. Such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinahengshi.com.cn](http://www.chinahengshi.com.cn)). Whether or not you intend to attend the Annual General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Hong Kong share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude any Shareholder from attending and voting in person at the Annual General Meeting and any adjournment thereof if you so wish and in such event the form of proxy shall be deemed to be revoked.

11 April 2018

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions shall 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 of 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 of 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 of 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 of the procurement of Logistics Services from Yushi International by the Group
“Annual General Meeting”	the annual general meeting of the Company to be held at Inspirock Hotel, 199 Zhengxing East Road, Tongxiang, Zhejiang Province, the PRC on 11 May 2018 at 3:00 p.m., or any adjournment thereof and notice of which is set out on pages 74 to 79 of this circular
“Articles of Association”	the articles of association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors

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## DEFINITIONS

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“Cayman Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Company”	China Hengshi Foundation Company Limited (中國恒石基業有限公司), a company incorporated in the Cayman Islands on 23 February 2015, 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 shareholders”	has the meaning ascribed to it under the Listing Rules and unless the context otherwise requires, refers to Mr. Zhang Yuqiang and Huachen Investment Limited
“Director(s)”	the director(s) of the Company
“Export Agent Services”	export agency services to be provided to the Group, including freight booking and customs clearance, in respect of the fiberglass fabric products which are manufactured by the Group to its overseas customers 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 Mr. Xie Guoping, Mr. Lou Hetong and Mr. Zhao Jun, all being the independent non-executive Directors
“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 as defined under the SFO and 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

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## DEFINITIONS

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“Independent Shareholders”	shareholders (other than Mr. Zhang Yuqiang, Mr. Zhang Jiankian, Huachen Investment Limited, Huakai Investment Limited and their respective associates) who are not required to abstain from voting on the relevant resolutions at the Annual General Meeting so convened due to their material interests in the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions
“Issue Mandate”	a general unconditional mandate to be granted to the Directors at the Annual General Meeting to allot, issue and/or deal in Shares of up to 20% of the total number of the issued Shares as at the date of passing of the relevant resolution granting such mandate
“Latest Practicable Date”	4 April 2018, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“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 Group, 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) transporting the products from the Group to its domestic and/or overseas customers; (iii) 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 overseas customers; and (iv) 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 purpose of this circular, excludes Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan

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## DEFINITIONS

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“Repurchase Mandate”	a general unconditional mandate proposed to be granted to the Directors at the Annual General Meeting to repurchase such number of Shares on the Stock Exchange of up to 10% of the total number of the issued Shares as at the date of passing of the relevant resolution granting such mandate
“RMB”	Reminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“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 Latest Practicable Date, Mr. Zhang Jiankan is interested in 70% of the registered capital in Shanghai Tianshi
“Share(s)”	ordinary share(s) of nominal value of US\$0.001 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission of Hong Kong, as amended from time to time
“US\$”	United States dollar, the lawful currency of the United States of America
“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 Latest Practicable Date, 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 the PRC with limited liability. As at the Latest Practicable Date, Mr. Zhang Yuqiang and Mr. Zhang Jiankan are interested in 70.28% and 25.23% of the registered capital in Zhenshi, respectively
“%”	per cent

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LETTER FROM THE BOARD

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

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

**(Stock Code: 1197)**

*Non-executive Directors:*

Mr. Zhang Yuqiang (*Chairman*)  
Mr. Zhang Jiankan  
Mr. Tang Hsin-hua  
Mr. Wang Yuan

*Registered office:*

190 Elgin Avenue  
George Town  
Grand Cayman KY1-9005  
Cayman Islands

*Executive Directors:*

Mr. Zhou Tingcai  
Ms. Huang Junjun

*Principal place of business and  
head office in the PRC:*

No. 1 Guang Yun South Road  
Tongxiang Economic Development Zone  
Tongxiang, Zhejiang Province  
PRC

*Independent non-executive Directors:*

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

*Principal place of business in  
Hong Kong:*

39/F, Gloucester Tower  
The Landmark  
15 Queen's Road Central,  
Hong Kong

11 April 2018

*To the Shareholders*

Dear Sir or Madam,

**PROPOSALS FOR  
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES,  
RE-ELECTION OF DIRECTORS,  
DECLARATION OF A FINAL DIVIDEND,  
2018 CONTINUING CONNECTED TRANSACTIONS,  
2019-2020 CONTINUING CONNECTED TRANSACTIONS  
AND  
NOTICE OF ANNUAL GENERAL MEETING**

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## LETTER FROM THE BOARD

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### INTRODUCTION

The purpose of this circular is to provide Shareholders with the notice of Annual General Meeting and information and to seek your approval in respect of, among other matters, the following resolutions to be put forward as ordinary resolutions at the Annual General Meeting: (a) granting to the Directors the Issue Mandate and the Repurchase Mandate and the extension of the Issue Mandate; (b) re-election of Directors; (c) the declaration of a final dividend; (d) the 2018 Continuing Connected Transactions; and (e) the 2019-2020 Continuing Connected Transactions.

The purpose of this circular is also (i) to provide Shareholders with further information of the transactions contemplated under the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions and the respective proposed annual caps; (ii) to set out the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iii) to set out the recommendation from the Independent Board Committee to the Independent Shareholders relating to the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions.

References are made to (a) the announcements of the Company dated 1 January 2018, 19 January 2018 and 23 January 2018 all in relation to the entering into of (i) the 2018 Yushi International Framework Agreement and (ii) the 2018 Shanghai Tianshi Framework Agreement; and (b) the announcement of the Company dated 19 March 2018 in relation to the entering into of (i) the 2019-2020 Yushi International Framework Agreement and (ii) the 2019-2020 Shanghai Tianshi Framework Agreement.

The 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions are conditional upon the Independent Shareholders' approval at the Annual General Meeting to be convened. Details of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected are set out on pages 8 to 27 of this circular.

### ISSUE MANDATE

In order to ensure flexibility and to provide discretion to the Directors in the event that it becomes desirable for the Company to issue any new Shares, an ordinary resolution will be proposed at the Annual General Meeting to grant a general mandate to the Directors to exercise all powers of the Company to allot, issue and deal with additional Shares of up to 20% of the total number of Shares in issue as at the date of passing of such resolution in relation to the Issue Mandate.

As at the Latest Practicable Date, the number of issued Shares was 1,000,000,000 Shares. Subject to the passing of the ordinary resolutions and on the basis that no further Shares are issued or repurchased after the Latest Practicable Date and up to the Annual General Meeting, the Company will be allowed to allot, issue and deal with addition Shares of up to 200,000,000 Shares, representing 20% of the total number of the Shares in issue.

In addition, subject to a separate approval of the ordinary resolution numbered 5(C), the number of the Shares repurchased by the Company under the proposed Repurchase Mandate will also be added to extend the 20% limit of the Issue Mandate provided that such additional number of the Shares shall not exceed 10% of the total number of Shares in issue as at the date of passing the resolutions in relation to the Issue Mandate and the Repurchase Mandate.



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## LETTER FROM THE BOARD

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### REPURCHASE MANDATE

An ordinary resolution will be proposed at the Annual General Meeting to approve the granting of the Repurchase Mandate to the Directors to exercise all powers of the Company to repurchase Shares representing up to 10% of the total number of Shares in issue as at the date of passing of such resolution in relation to the Repurchase Mandate.

### EXPLANATORY STATEMENT

An explanatory statement required by the Listing Rules to be sent to the Shareholders in connection with the proposed Repurchase Mandate is set out in Appendix II to this circular. This explanatory statement contains all information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the relevant resolution at the Annual General Meeting.

### RE-ELECTION OF DIRECTORS

In accordance with article 105 of the Articles of Association, Mr. Xie Guoping will retire by rotation, and being eligible, offer himself for re-election as the Director at the Annual General Meeting.

Reference is made to the announcement of the Company dated 6 March 2018 in relation to the change of independent non-executive Directors and change of composition of Board committees. The term of appointment of each of Mr. Lou Hetong and Mr. Zhao Jun has commenced on 6 March 2018 until the date of the Annual General Meeting. Mr. Lou Hetong and Mr. Zhao Jun will, being eligible, offer themselves for re-election at the Annual General Meeting.

Biographical details of the above Directors who are standing for re-election are set out in Appendix I to this circular.

Saved as disclosed in this circular, there are no other matters in relation to the proposed re-election of Directors that need to be brought to the attention of the Shareholders.

### FINAL DIVIDEND

The Board recommends to distribute a final dividend for the year ended 31 December 2017 at RMB0.0864 per Share (2016: RMB0.0885) which is subject to the approval from the Shareholders at the Annual General Meeting and is expected to be distributed on 28 May 2018 to the Shareholders whose names appear on the register of members of the Company on 21 May 2018.

In order to determine the identity of Shareholders who are entitled to the final dividend, the register of members of the Company will be closed from Thursday, 17 May 2018 to Monday, 21 May 2018, both days inclusive. In order to be eligible for receiving the final dividend, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, 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, 16 May 2018.

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## LETTER FROM THE BOARD

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### 2018 CONTINUING CONNECTED TRANSACTIONS

#### 2018 Yushi International Framework Agreement

The Company entered into the 2018 Yushi International Framework Agreement with Yushi International in relation to the procurement of Logistics Services from Yushi International on 29 December 2017.

#### Principal terms of 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 Logistics Services or if independent third parties can offer terms more favorable than those offered by it, the Group is entitled to procure Logistics 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 Logistics 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

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## LETTER FROM THE BOARD

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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. The selected logistics agent is not entitled to deviate from the pre-determined price schedule in providing the Logistics Services to the Group under all circumstances. Historically all previously selected logistics agents did not deviate from any pre-determined price schedules in providing the Logistics Services to the Group before. This pricing mechanism ensures that the pricing terms at which the Group solicits the Logistics Services from a logistics agent are fair and reasonable.

### **Pricing Policy under the 2018 Yushi International Framework Agreement**

The Company and Yushi International entered into the 2018 Yushi International Framework Agreement with the pre-determined price schedule which is determined with reference to the final quotation provided by Yushi International during the competitive tender process at the beginning of 2018. The methods of calculating the amount payable by the Company to Yushi International for the procurement of the Logistics Services (including land transportation services to our domestic customers and export agency services to our overseas customers) in accordance with the pre-determined price schedule in the 2018 Yushi International Framework Agreement are set out as follows:

- (a) Fees of land transportation services to our domestic customers
  - (i) The total amount payable by the Company to Yushi International for the procurement of land transportation services to our domestic customers is the aggregate of total expected fees of land transportation services from Yushi International to our domestic customers employing the relevant services from Yushi International.
  - (ii) Expected fees of land transportation services from Yushi International to a domestic customer in the current year = expected sales of such domestic customer by the Company in the current year x pre-determined unit price (for bulk cargo: calculated in RMB/ton; for batch supply: calculated in RMB/vehicle).
  - (iii) For instance, the expected fee of land transportation services provided by Yushi International from Tongxiang to Beijing, from Tongxiang to Tianjian, and from Tongxiang to Zhongshan, ranges from RMB13,600 to RMB13,900 per vehicle, from RMB10,400 to RMB10,700 per vehicle and from RMB17,200 to RMB17,700 per vehicle, respectively.
- (b) Fees of export agency services to our overseas customers
  - (i) The total amount payable by the Company to Yushi International for the procurement of export agency services to our overseas customers is the aggregate of total expected fees of export agency services from Yushi International to our overseas customers in Europe employing the relevant services from Yushi International.
  - (ii) Expected fees of export agency services from Yushi International to an overseas customer = the aggregate of (i) the land transportation fees from a production base to a sea port (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price); and (ii) the export agency services fees from a sea port to such customer's destination (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price).

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## LETTER FROM THE BOARD

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- (iii) For instance, the expected fee of export agency services provided by Yushi International from Shanghai to Izmir Port, from Shanghai to Nhava Sheva and from Shanghai to Chennai, ranges from USD1,350 to USD1,390 per container, from USD840 to USD870 per container and from US510 to US525 per container, respectively.

The above pre-determined price schedule has been determined after arm's length negotiation with reference to the following factors:

- (i) the quotation of each of potential logistics agents submitted during the competitive tender process in 2018; and
- (ii) the actual unit price of Logistics Services procured by the Company in the past years.

### **Proportion of Logistics Services to be provided by Yushi International**

For the year ended 31 December 2017, four logistics agents (inclusive of Yushi International) have been appointed by the Company on an annual basis as logistics agents of the Company following the competitive tender process to provide the Logistics Services to the Company. For the year ending 31 December 2018, three logistics agents (inclusive of Yushi International, subject to the Independent Shareholders' approval at the Annual General Meeting) have been appointed by the Company on an annual basis as logistics agents of the Company following the competitive tender process to provide the Logistics Services to the Company.

For the year ending 31 December 2018, the expected proportion of the amount to be spent on the procurement of the Logistics Services from Yushi International in estimated total amount to be spent on the procurement of the Logistics Services and Export Agency Services from all selected logistics agents and export agents are approximately 52.20%.

The proportion of services to be procured from each of the selected logistics agents of the Company has been determined by the Company at the beginning of each year with reference to the following factors:

- (i) the estimated total amount to be spent on the Logistics Services which is calculated based on the estimated proportion of domestic and international sales and the distribution of customers;
- (ii) the Company's distribution plan to customers located in the PRC, Europe, North America and other places; and
- (iii) the transportation advantages of each logistics agents in different regions and transportation routes.

Yushi International mainly provides land transportation services to our domestic customers which require batch supply services and long-distance services and are located in the northwestern, northeastern, eastern and southwestern regions of the PRC due to the following factors: (a) Yushi International is a large-scale multi-functional logistics service company which is the leading logistics enterprise in Zhejiang Province in the PRC and is the only national AAAA class transportation company in Jiaxing City in the PRC; (b) Yushi International has abundant resources in terms of Logistics Services and is able

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## LETTER FROM THE BOARD

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to satisfy the demand for Logistics Services of the Company in different aspects; and (c) the quotation provided by Yushi International is lower than other potential logistics agents.

Yushi International also mainly provides export agency services for our major long-term customers in Europe due to the following factors: (a) Yushi International has set up offices in the Company's major port for export located in Shanghai; (b) Yushi International has well established connection with different partners and clients in Europe, and maintains long-term working relationships with many freight forwarding companies and customs clearance companies in the PRC and Europe, which can ensure the timely clearance of the Company's products from customs and the provision of appropriate transportation services; (c) with long-term experience in serving the major European customers of the Company, Yushi International is able to understand the needs of our European customers, to provide rapid and timely transportation services and to timely and accurately report shipment status of transported goods to the Company and our European customers; and (d) given the comparative advantages of Yushi International in terms of its scale and resources of transportation services, the quotation provided by Yushi International is lower than other potential logistics agents.

The remaining three logistics agents mainly provide the Logistics Services to our customers which require short-distance services and bulk cargo transportation services and are located in the surrounding areas of the Company in the event that (a) Yushi International is unable to meet the service needs of the Company; and (b) some of our customers have designated such logistics agent(s) to provide the Logistics Services.

### **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. 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. In view of the benefits discussed above, the Board is not aware of any disadvantages to the Group of entering into the 2018 Yushi International Framework Agreement.

The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser, and excluding Mr. Zhang Yuqiang, Mr. Wang Yuan and Mr. Zhang Jiankan, all being directors of the Company and Zhenshi, who are deemed to have material interests in the transactions contemplated under the 2018 Yushi International Framework Agreement and have abstained from voting on the relevant resolutions of the Board for considering and approving the 2018 Yushi International Framework Agreement) are of the view that 2018 Yushi International Framework Agreement (including the proposed annual cap) is 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 (including the proposed annual cap) 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 RMB42,585,000, RMB54,050,000 and RMB53,878,000, respectively.

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## LETTER FROM THE BOARD

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### **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 RMB61,393,000.

The proposed annual cap for the transactions under the 2018 Yushi International Framework Agreement has 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 due to the expected continuous growth in demand for the wind power products with the continuous support of the Government policy issued by National Energy Administration in the PRC named “風電發展“十三五”規劃” (Wind Power Development 13th Five-Year Plan);
- (iii) the expected increase in sales volume of our products in the PRC region of approximately 12% to 17% on a year-on-year basis from 2018 to 2020;
- (iv) the expected increase of international and PRC freight fee of approximately 5% on a year-on-year basis from 2018 to 2020;
- (v) the expected mix of international and PRC orders of the Group (that is, the expected delivery volume (in tonnes) of international and PRC orders of the Group of approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020);
- (vi) the expected proportion of Logistics Services to be provided by Yushi International; and
- (vii) in determining the aforementioned annual cap, the Company assumes a gradually decreasing trend of the proportion of Logistics Services to be provided by Yushi International.

### **2018 Shanghai Tianshi Framework Agreement**

The Company entered into the 2018 Shanghai Tianshi Framework Agreement with Shanghai Tianshi in relation to the procurement of Export Agent Services from Shanghai Tianshi on 29 December 2017.

### **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

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## LETTER FROM THE BOARD

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### **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. The selected export agent is not entitled to deviate from the pre-determined price schedule in providing the Export Agency Services to the Group under all circumstances. Historically all previously selected export agents did not deviate from any pre-determined price schedules in providing the Export Agency Services to the Group before. This pricing mechanism ensures that the pricing terms at which the Group solicits Export Agency Services from an export agent are fair and reasonable.

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## LETTER FROM THE BOARD

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### **Pricing Policy under the 2018 Shanghai Tianshi Framework Agreement**

The Company and Shanghai Tianshi entered into the 2018 Shanghai Tianshi Framework Agreement with the pre-determined price schedule which is determined with reference to the final quotation provided by Shanghai Tianshi during the competitive tender process at the beginning of 2018. The methods of calculating the amount payable by the Company to Shanghai Tianshi for the procurement of the Export Agency Services in accordance with the pre-determined price schedule in the 2018 Shanghai Tianshi Framework Agreement are set out as follows:

Fees of Export Agency Services to our overseas customers

- (i) The total amount payable by the Company to Shanghai Tianshi for the procurement of Export Agency Services to our overseas customers is the aggregate of total expected fees of Export Agency Services from Shanghai Tianshi to our overseas customers in North America and Europe employing the relevant services from Shanghai Tianshi.
- (ii) Expected fees of Export Agency Services from Shanghai Tianshi to an overseas customer = the aggregate of (i) the land transportation fees from a production base to a sea port (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price); and (ii) the Export Agency Services fees from a sea port to such customer's destination (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price).
- (iii) For instance, the expected fee of Export Agency Services provided by Shanghai Tianshi from Shanghai to Kansas City, from Shanghai to Moberley and from Shanghai to Irwindale, ranges from USD3,700 to USD3,885 per container, from USD3,900 to US\$4,100 per container and from US\$2,000 to US\$2,100 per container, respectively.

The above pre-determined price schedule has been determined after arm's length negotiation with reference to the following factors:

- (i) the quotation of each of potential export agents submitted during the competitive tender process in 2018; and
- (ii) the actual unit price of Export Agency Services procured by the Company in the past years.

### **Proportion of Export Agency Services to be provided by Shanghai Tianshi**

For the year ended 31 December 2017, three export agents (inclusive of Shanghai Tianshi) have been appointed by the Company on an annual basis as export agents of the Company following the competitive tender process to provide the Export Agency Services to the Company. For the year ending 31 December 2018, three export agents (inclusive of Shanghai Tianshi, subject to the Independent Shareholders' approval at the Annual General Meeting) have been appointed by the Company on an annual basis as export agents of the Company following the competitive tender process to provide the Export Agency Services to the Company.

For the year ending 31 December 2018, the expected proportion of the amount to be spent on the procurement of Export Agency Services from Shanghai Tianshi in estimated total amount to be spent on the procurement of the Logistics Services and the Export Agency Services from all selected logistics agents and export agents are approximately 34.80%.



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## LETTER FROM THE BOARD

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The proportion of services to be procured from each of the selected export agents of the Company has been determined by the Company at the beginning of each year with reference to the following factors:

- (i) the estimated total amount to be spent on the Export Agency Services which is calculated based on the estimated proportion of domestic and international sales and the distribution of customers;
- (ii) the Company's distribution plan to customers located in the PRC, Europe, North America and other places;
- (iii) the increase in the proportion of business undertaken by Shanghai Tianshi following the completion of the Group's overseas bases; and
- (iv) the strengths of each export agents in different regions and transportation routes.

Shanghai Tianshi mainly provides the Export Agency Services to our customers in North America due to the following factors: (a) Shanghai Tianshi has been operating in the North American market for many years and has well-established connection with different partners and clients in North America, and maintains long-term working relationships with many local freight forwarding companies and customs clearance companies, which can ensure timely clearance of the Company's products from customs and the provision of appropriate transportation services; and (b) the quotation for Export Agency Services in North American market provided by Shanghai Tianshi is lower than other potential export agents.

Shanghai Tianshi also mainly provides the Export Agency Services for our products from our production sites in Egypt to our customers in Europe as Shanghai Tianshi has set up offices in Egypt and it has abundant local transportation resources to ensure the timely clearance of the Company's products from customs and the provision of appropriate transportation services.

The remaining two export agents mainly provide the Export Agency Services to a small number of our customers in North America and Europe in the event that (a) Shanghai Tianshi is unable to meet the service needs of the Company; and (b) our customers have designated such export agent(s) to provide the Export Agency Services.

### **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 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. In view of the benefits discussed above, the Board is not aware of any disadvantages to the Group of entering into the 2018 Shanghai Tianshi Framework Agreement.

The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser, and excluding Mr. Zhang Yuqiang and Mr. Zhang Jiankan, all being the Directors, who are deemed to have material interests in the transactions contemplated under the 2018 Shanghai Tianshi Framework Agreement and have abstained from voting on the relevant resolutions of the Board for considering and approving the 2018 Shanghai Tianshi Framework Agreement) are of the view that 2018 Shanghai Tianshi Framework Agreement (including the proposed annual cap) is in the

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## LETTER FROM THE BOARD

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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 (including the proposed annual cap) 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 RMB11,053,000, RMB14,957,000 and RMB20,124,000, 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 RMB40,928,000.

The proposed annual caps 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 due to the new production plant in Suez of Egypt which has successfully entered into the mass production and supply stage;
- (iii) the expected increase in sales volume of our products in the overseas regions (primarily in Americas, Egypt and other regions) of approximately 16% to 17% on a year-on-year basis from 2018 to 2020;
- (iv) the expected increase of international freight fee of approximately 5% on a year-on-year basis from 2018 to 2020;
- (v) the expected mix of international and PRC orders of the Group (that is, the expected delivery volume (in tonnes) of international and PRC orders of the Group of approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020);
- (vi) the expected proportion of the Export Agency Services to be provided by Shanghai Tianshi; and
- (vii) in determining the aforementioned annual cap, the Company assumes a gradually decreasing trend of the proportion of Export Agency Services to be provided by Shanghai Tianshi.

### **2019-2020 CONTINUING CONNECTED TRANSACTIONS**

#### **2019-2020 Yushi International Framework Agreement**

Considering the continuity of the transaction and the continuity of the cooperation, the Company entered into the 2019-2020 Yushi International Framework Agreement with Yushi International in connection with the procurement of the Logistics Services on 19 March 2018.

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## LETTER FROM THE BOARD

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### **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 Logistics Services or if independent third parties can offer terms more favorable than those offered by it, the Group is entitled to procure Logistics 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 Logistics 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. The selected logistics agent is not entitled to deviate from the pre-determined price schedule in providing the Logistics Services to the Group under all circumstances. Historically all previously selected logistics agents did not deviate from any pre-determined price schedules in providing the Logistics Services to the Group before. This pricing mechanism ensures that the pricing terms at which the Group solicits the Logistics Services from a logistics agent are fair and reasonable.

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## LETTER FROM THE BOARD

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Although the tender process to select the logistics agents which will provide Logistics Services to the Group for 2019 and 2020 has not commenced and Yushi International has entered into the 2019-2020 Yushi International Framework Agreement with the Group on 19 March 2018, the Group will still conduct the competitive tender process to select suitable logistics agents at the beginning of each of 2019 and 2020. If Yushi International is not selected as the logistics agent of the Group during the relevant tender process with the consideration of the numbers of factors as mentioned above in 2019 and/or 2020, the Group is entitled to terminate the 2019-2020 Yushi International Framework Agreement and select another logistics agent which could offer more favourable terms to the Group. In the event that the framework agreement is terminated in 2019 and/or 2020, appropriate disclosures will be made by the Group's announcement and in its annual report of relevant year.

### **Pricing Policy under the 2019-2020 Yushi International Framework Agreement**

The Company and Yushi International entered into the 2019-2020 Yushi International Framework Agreement with the pre-determined price schedule which is determined with reference to the final quotation provided by Yushi International during the competitive tender process at the beginning of 2018. The methods of calculating the amount payable by the Company to Yushi International for the procurement of the Logistics Services (including land transportation services to our domestic customers and export agency services to our overseas customers) in accordance with the pre-determined price schedule in the 2019-2020 Yushi International Framework Agreement are set out as follows:

- (a) Fees of land transportation services to our domestic customers
  - (i) The total amount payable by the Company to Yushi International for the procurement of land transportation services to our domestic customers is the aggregate of total expected fees of land transportation services from Yushi International to our domestic customers employing the relevant services from Yushi International.
  - (ii) Expected fees of land transportation services from Yushi International to a domestic customer in the current year = expected sales of such domestic customer by the Company in the current year x pre-determined unit price (for bulk cargo: calculated in RMB/ton; for batch supply: calculated in RMB/vehicle).
  - (iii) For instance, the expected fee of land transportation services provided by Yushi International from Tongxiang to Beijing, from Tongxiang to Tianjian, and from Tongxiang to Zhongshan, ranges from RMB14,335 to RMB15,050 per vehicle, from RMB11,025 to RMB11,580 per vehicle and from RMB18,220 to RMB19,130 per vehicle, respectively.
- (b) Fees of export agency services to our overseas customers
  - (i) The total amount payable by the Company to Yushi International for the procurement of export agency services to our overseas customers is the aggregate of total expected fees of export agency services from Yushi International to our overseas customers in Europe employing the relevant services from Yushi International.
  - (ii) Expected fees of export agency services from Yushi International to an overseas customer = the aggregate of (i) the land transportation fees from a production base to a sea port (the number of standard container (as calculated in accordance with the expected demand of such

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## LETTER FROM THE BOARD

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customer) × pre-determined unit price); and (ii) the export agency services fees from a sea port to such customer's destination (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price).

- (iii) For instance, the expected fee of export agency services provided by Yushi International from Shanghai to Izmir Port, from Shanghai to Nhava Sheva and from Shanghai to Chennai, ranges from USD1,435 to USD 1,505 per container, from USD895 to USD940 per container and from USD540 to USD570 per container, respectively.

The above pre-determined price schedule has been determined after arm's length negotiation with reference to the following factors:

- (i) the quotation of each of potential logistics agents submitted during the competitive tender process in 2018; and
- (ii) the actual unit price of Logistics Services procured by the Company in the past years.

### **Proportion of Logistics Services to be provided by Yushi International**

For the year ended 31 December 2017, four logistics agents (inclusive of Yushi International) have been appointed by the Company on an annual basis as logistics agents of the Company following the competitive tender process to provide the Logistics Services to the Company. For the year ending 31 December 2018, three logistics agents (inclusive of Yushi International, subject to the Independent Shareholders' approval at the Annual General Meeting) have been appointed by the Company on an annual basis as logistics agents of the Company following the competitive tender process to provide the Logistics Services to the Company.

For the years ending 31 December 2019 and 2020, the expected proportion of the amount to be spent on the procurement of the Logistics Services from Yushi International in estimated total amount to be spent on the procurement of the Logistics Services and Export Agency Services from all selected logistics agents and export agents are approximately 51.60% and 51%, respectively.

The proportion of services to be procured from each of the selected logistics agents of the Company has been determined by the Company at the beginning of each year with reference to the following factors:

- (i) the estimated total amount to be spent on the Logistics Services which is calculated based on the estimated proportion of domestic and international sales and the distribution of customers;
- (ii) the Company's distribution plan to customers located in the PRC, Europe, North America and other places; and
- (iii) the strengths of each logistics agents in different regions and transportation routes.

Yushi International mainly provides land transportation services to our domestic customers which require batch supply services and long-distance services and are located in the northwestern, northeastern, eastern and southwestern regions of the PRC due to the following factors: (a) Yushi International is a large-scale multi-functional logistics service company which is the leading logistics enterprise in Zhejiang Province in the PRC and is the only national AAAA class transportation company in Jiaying

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## LETTER FROM THE BOARD

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City in the PRC; and (b) Yushi International has abundant resources in terms of Logistics Services and is able to satisfy the demand for Logistics Services of the Company in different aspects.

Yushi International also mainly provides export agency services for our major long-term customers in Europe due to the following factors: (a) Yushi International has set up offices in the Company's major port for export located in Shanghai; (b) Yushi International has well established connection with different partners and clients in Europe, and maintains long-term working relationships with many freight forwarding companies and customs clearance companies in the PRC and Europe, which can ensure the timely clearance of the Company's products from customs and the provision of appropriate transportation services; and (c) with long-term experience in serving the major European customers of the Company, Yushi International is able to understand the needs of our European customers, to provide rapid and timely transportation services and to timely and accurately report shipment status of transported goods to the Company and our European customers.

The remaining three logistics agents mainly provide the Logistics Services to our customers which require short-distance services and bulk cargo transportation services and are located in the surrounding areas of the Company in the event that (a) Yushi International is unable to meet the service needs of the Company; and (b) some of our customers have designated such logistics agent(s) to provide the Logistics Services.

### **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. In view of the benefits discussed above, the Board is not aware of any disadvantages to the Group of entering into the 2019-2020 Yushi International Framework Agreement.

The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser, and excluding Mr. Zhang Yuqiang, Mr. Wang Yuan and Mr. Zhang Jiankan, all being directors of the Company and Zhenshi, who are deemed to have material interests in the transactions contemplated under the 2019-2020 Yushi International Framework Agreement and have abstained from voting on the relevant 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 (including the proposed annual caps) is 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 (including the proposed annual caps) 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 RMB42,585,000, RMB54,050,000 and RMB53,878,000, respectively.

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## LETTER FROM THE BOARD

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### Proposed annual caps

The proposed annual caps for the years ending 31 December 2019 and 2020 in relation of procurement of Logistics Services from Yushi International under the 2019-2020 Yushi International Framework Agreement are approximately RMB74,097,000 and RMB89,085,000, respectively.

The proposed annual cap for the transactions under the 2019-2020 Yushi International Framework Agreement has 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 due to the expected continuous growth in demand for the wind power products with the continuous support of the Government policy issued by National Energy Administration in the PRC named “風電發展“十三五”規劃” (Wind Power Development 13th Five-Year Plan);
- (iii) the expected increase in sales volume of our products in the PRC region of approximately 12% to 17% on a year-on-year basis from 2018 to 2020;
- (iv) the expected increase of international and PRC freight fee of approximately 5% on a year-on-year basis from 2018 to 2020;
- (v) the expected mix of international and PRC orders of the Group (that is, the expected delivery volume (in tonnes) of international and PRC orders of the Group of approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020);
- (vi) the expected proportion of Logistics Services to be provided by Yushi International; and
- (vii) in determining the aforementioned annual caps, the Company assumes a gradually decreasing trend of the proportion of Logistics Services to be provided by Yushi International.

### 2019-2020 Shanghai Tianshi Framework Agreement

Considering the continuity of the transaction and the continuity of the cooperation, the Company entered into the 2019-2020 Shanghai Tianshi Framework Agreement with Shanghai Tianshi in connection with the procurement of the Export Agency Services on 19 March 2018.

### 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

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## LETTER FROM THE BOARD

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### **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. The selected export agent is not entitled to deviate from the pre-determined price schedule in providing the Export Agency Services to the Group under all circumstances. Historically all previously selected export agents did not deviate from any pre-determined price schedules in providing the Export Agency Services to the Group before. This pricing mechanism ensures that the pricing terms at which the Group solicits Export Agency Services from an export agent are fair and reasonable.

Although the tender process to select the export agents which will provide Export Agency Services to the Group for 2019 and 2020 has not commenced and Shanghai Tianshi has entered into the 2019-2020 Shanghai Tianshi Framework Agreement with the Group on 19 March 2018, the Group will still conduct the competitive tender process to select suitable export agents at the beginning of each of 2019 and 2020. If Shanghai Tianshi is not selected as the export agent of the Group during the relevant tender process with the consideration of the numbers of factors as mentioned above in 2019 and/or 2020, the Group is entitled to terminate the 2019-2020 Shanghai Tianshi Framework Agreement and select another export agent which could offer more favourable terms to the Group. In the event that the framework agreement



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## LETTER FROM THE BOARD

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is terminated in 2019 and/or 2020, appropriate disclosures will be made by the Group's announcement and in its annual report of relevant year.

### **Pricing Policy under the 2019-2020 Shanghai Tianshi Framework Agreement**

The Company and Shanghai Tianshi entered into the 2019-2020 Shanghai Tianshi Framework Agreement with the pre-determined price schedule which is determined with reference to the final quotation provided by Shanghai Tianshi during the competitive tender process at the beginning of 2018. The methods of calculating the amount payable by the Company to Shanghai Tianshi for the procurement of the Export Agency Services in accordance with the pre-determined price schedule in the 2019-2020 Shanghai Tianshi Framework Agreement are set out as follows:

Fees of Export Agency Services to our overseas customers

- (i) The total amount payable by the Company to Shanghai Tianshi for the procurement of Export Agency Services to our overseas customers is the aggregate of total expected fees of Export Agency Services from Shanghai Tianshi to our overseas customers in North America and Europe employing the relevant services from Shanghai Tianshi.
- (ii) Expected fees of Export Agency Services from Shanghai Tianshi to an overseas customer = the aggregate of (i) the land transportation fees from a production base to a sea port (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price); and (ii) the Export Agency Services fees from a sea port to such customer's destination (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price).
- (iii) For instance, the expected fee of Export Agency Services provided by Shanghai Tianshi from Shanghai to Kansas City, from Shanghai to Moberley and from Shanghai to Irwindale, ranges from USD3,885 to USD4,080 per container, from USD4,100 to USD4,305 per container and from USD2,100 to USD2,205 per container, respectively.

The above pre-determined price schedule has been determined after arm's length negotiation with reference to the following factors:

- (i) the quotation of each of potential export agents submitted during the competitive tender process in 2018; and
- (ii) the actual unit price of Export Agency Services procured by the Company in the past years.

### **Proportion of Export Agency Services to be provided by Shanghai Tianshi**

For the year ended 31 December 2017, three export agents (inclusive of Shanghai Tianshi) have been appointed by the Company on an annual basis as export agents of the Company following the competitive tender process to provide the Export Agency Services to the Company. For the year ending 31 December 2018, three export agents (inclusive of Shanghai Tianshi, subject to the Independent Shareholders' approval at the Annual General Meeting) have been appointed by the Company on an annual basis as export agents of the Company following the competitive tender process to provide the Export Agency Services to the Company.

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## LETTER FROM THE BOARD

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For the years ending 31 December 2019 and 2020, the expected proportion of the amount to be spent on the procurement of Export Agency Services from Shanghai Tianshi in estimated total amount to be spent on the procurement of the Logistics Services and the Export Agency Services from all selected logistics agents and export agents are approximately 34.40% and 34%, respectively.

The proportion of services to be procured from each of the selected export agents of the Company has been determined by the Company at the beginning of each year with reference to the following factors:

- (i) the estimated total amount to be spent on the Export Agency Services which is calculated based on the estimated proportion of domestic and international sales and the distribution of customers;
- (ii) the Company's distribution plan to customers located in the PRC, Europe, North America and other places;
- (iii) the increase in the proportion of business undertaken by Shanghai Tianshi following the completion of the Group's overseas bases; and
- (iv) the strengths of each export agents in different regions and transportation routes.

Shanghai Tianshi mainly provides the Export Agency Services to our customers in North America as Shanghai Tianshi has been operating in the North American market for many years and has well-established connection with different partners and clients in North America, and maintains long-term working relationships with many local freight forwarding companies and customs clearance companies, which can ensure timely clearance of the Company's products from customs and the provision of appropriate transportation services.

Shanghai Tianshi also mainly provides the Export Agency Services for our products from our production sites in Egypt to our customers in Europe as Shanghai Tianshi has set up offices in Egypt and it has abundant local transportation resources to ensure the timely clearance of the Company's products from customs and the provision of appropriate transportation services.

The remaining two export agents mainly provide the Export Agency Services to a small number of our customers in North America and Europe in the event that (a) Shanghai Tianshi is unable to meet the service needs of the Company; and (b) our customers have designated such export agent(s) to provide the Export Agency Services.

### **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. In view of the benefits discussed above, the Board is not aware of any disadvantages to the Group of entering into the 2019-2020 Shanghai Tianshi Framework Agreement.

The Directors (including the independent non-executive Directors who have taken into account the advice from the Independent Financial Adviser, and excluding Mr. Zhang Yuqiang and Mr. Zhang Jiankan, all

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## LETTER FROM THE BOARD

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being the Directors, who are deemed to have material interests in the transactions contemplated under the 2019-2020 Shanghai Tianshi Framework Agreement and have abstained from voting on the relevant 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 (including the proposed annual caps) is 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 (including the proposed annual caps) 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 RMB11,053,000, RMB14,957,000 and RMB20,124,000, respectively.

### **Proposed annual caps**

The proposed annual caps for the years ending 31 December 2019 and 2020 in relation of procurement of Export Agency Services from Shanghai Tianshi under the 2019-2020 Shanghai Tianshi Framework Agreement are approximately RMB49,398,000 and RMB59,390,000, respectively.

The proposed annual caps for the transactions under the 2019-2020 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 due to the new production plant in Suez of Egypt which has successfully entered into the mass production and supply stage;
- (iii) the expected increase in sales volume of our products in the overseas regions (primarily in Americas, Egypt and other regions) of approximately 16% to 17% on a year-on-year basis from 2018 to 2020;
- (iv) the expected increase of international freight fee of approximately 5% on a year-on-year basis from 2018 to 2020;
- (v) the expected mix of international and PRC orders of the Group (that is, the expected delivery volume (in tonnes) of international and PRC orders of the Group of approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020);
- (vi) the expected proportion of the Export Agency Services to be provided by Shanghai Tianshi; and
- (vii) in determining the aforementioned annual caps, the Company assumes a gradually decreasing trend of the proportion of Export Agency Services to be provided by Shanghai Tianshi.

### **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

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## LETTER FROM THE BOARD

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registered capital as at the Latest Practicable Date, 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 Latest Practicable Date, 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 and the 2019-2020 Yushi International Framework Agreement constitute continuing connected transactions of 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 Latest Practicable Date, 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 and the 2019-2020 Shanghai Tianshi Framework Agreement constitute continuing connected transactions of 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:

<b>The aggregate of proposed annual caps for the years ending 31 December 2018, 2019 and 2020</b>		
<b>For the year ending 31 December 2018</b>	<b>For the year ending 31 December 2019</b>	<b>For the year ending 31 December 2020</b>
<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
102,321,000	123,495,000	148,475,000

As one or more of the applicable percentage ratios calculated based on the aggregate of 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.

### **Independent Board Committee**

An Independent Board Committee has been established to advise the Independent Shareholders in respect of 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 Annual General Meeting. Titan Financial Services Limited has been appointed by the Company as the Independent Financial Adviser for the purpose of advising the Independent Board Committee and the Independent Shareholders on the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions.

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## LETTER FROM THE BOARD

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The views of the Independent Board Committee on the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions after considering the advice from Titan Financial as the Independent Financial Adviser are set out in the Letter from Independent Board Committee on pages 30 to 31 of this circular.

### 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. To the best knowledge of the Directors, it is mainly engaged in businesses including goods transportation, international freight agency, export and import agency, customs clearance and declaration agency. As at the Latest Practicable Date, Zhenshi holds 92.859% of registered capital in Yushi International, and Mr. Zhang Yuqiang is interested in 70.28% of the registered capital in Zhenshi.

#### Information of Shanghai Tianshi

Shanghai Tianshi is a limited company registered and established in the PRC. To the best knowledge of the Directors, it is mainly engaged in businesses including international freight agency, inspection and quarantine agency for export and import freights. As at the Latest Practicable Date, Mr. Zhang Jiankan is interested in 70% of the registered capital in Shanghai Tianshi.

### NOTICE OF ANNUAL GENERAL MEETING

Set out on pages 74 to 79 of this circular is the notice convening the Annual General Meeting to consider and, if appropriate, to approve the resolutions in relation to, among others, the Issue Mandate, the Repurchase Mandate, the extension of the Issue Mandate, the declaration of a final dividend, the re-election of the Directors, the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions.

For determining eligibility to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 1 May 2018 to Friday, 11 May 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfer of Shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 30 April 2018.

### FORM OF PROXY

A form of proxy is enclosed for use at the Annual General Meeting. Such form of proxy is also published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.chinahengshi.com.cn](http://www.chinahengshi.com.cn)).

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## LETTER FROM THE BOARD

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Whether or not you intend to attend the Annual General Meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the holding of the Annual General Meeting or any adjournment thereof. Completion and delivery of the form of proxy shall not preclude a Shareholder from attending and voting in person at the Annual General Meeting if you so wish and in such event the form of proxy shall be deemed to be revoked.

### VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any resolution put to the vote of the shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, each of the resolutions set out in the notice of Annual General Meeting will be taken by way of poll.

On a poll, every Shareholder present in person or by proxy or, in the case of a Shareholder being a corporation, by its duly authorised representative, shall have one vote for every fully paid Share of which he/she/it is the holder. A Shareholder entitled to more than one vote needs not use all his/her/its votes or cast all the votes he/she/it uses in the same way.

In accordance with the Listing Rules, any Shareholder with a material interest in the 2018 Continuing Connected Transactions and/or the 2019-2020 Continuing Connected Transactions is required to abstain from voting and will not vote on the resolutions in relation to the 2018 Continuing Connected Transactions and/or the 2019-2020 Continuing Connected Transactions at the Annual General Meeting. To the best knowledge, belief and information of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, each of Huachen Investment Limited and Huakai Investment Limited holds a total of 329,602,500 Shares and 131,015,500 Shares, respectively, representing approximately 32.96% and 13.10% of the issued share capital of the Company, respectively. Mr. Zhang Yuqiang directly held 95.95% issued share capital of Huachen Investment Limited and was deemed to be interested in the 329,602,500 Shares held by Huachen Investment Limited. Mr. Zhang Jiankan directly held all issued share capital of Huakai Investment Limited and was deemed to be interested in the 131,015,500 Shares held by Huakai Investment Limited. Each of Mr. Zhang Yuqiang, Mr. Zhang Jiankan, Huachen Investment Limited and Huakai Investment Limited and their respective associates, shall abstain from voting on the relevant resolutions to be put forward at the Annual General Meeting for the purpose of approving the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions.

Apart from the above, to the best of the Directors' knowledge, belief and information, as at the Latest Practicable Date, none of the Shareholders has a material interest in the 2018 Continuing Connected Transactions and/or the 2019-2020 Continuing Connected Transactions, and therefore no other Shareholder is required to abstain from voting on the proposed resolutions in relation thereto at the Annual General Meeting.

An announcement on the poll vote results will be published by the Company after the Annual General Meeting in the manner prescribed under Rule 13.39(5) of the Listing Rules.

### RECOMMENDATION

The Board considers that the grant of the Issue Mandate, the Repurchase Mandate, the extension of the Issue Mandate, the re-election of the Directors, declaration of a final dividend, the 2018 Continuing

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## LETTER FROM THE BOARD

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Connected Transactions and the 2019-2020 Continuing Connected Transactions are carried out in the usual and ordinary course of business of the Group, on normal commercial terms or better and the proposed annual caps are fair and reasonable and in the best interests of the Company and the Shareholders. Accordingly, the Board recommends the Shareholders to vote in favour of all the relevant resolutions to be proposed at the Annual General Meeting.

### APPENDICES

Your attention is drawn to the letter from the Independent Board Committee as set out on pages 30 to 31 of this circular which contains its recommendation to the Independent Shareholders as to the voting at the Annual General Meeting regarding the 2018 Continuing Connected Transactions, the 2019-2020 Continuing Connected Transactions and the respective proposed annual caps.

Your attention is also drawn to the letter from Independent Financial Adviser as set out on pages 32 to 57 of this circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the 2018 Continuing Connected Transactions, the 2019-2020 Continuing Connected Transactions and the respective proposed annual caps, as well as the principal factors and reasons considered by it in concluding its advice.

Your attention is also drawn to Appendices I, II and III of this circular.

Yours faithfully,  
By order of the Board  
**China Hengshi Foundation Company Limited**  
**Zhang Yuqiang**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter of recommendation which has been prepared for the purpose of inclusion in this circular, from the Independent Board Committee to the Independent Shareholders regarding the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions.*



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

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

**(Stock Code: 1197)**

*Independent Board Committee:*

Mr. Xie Guoping

Mr. Lou Hetong

Mr. Zhao Jun

11 April 2018

*To the Independent Shareholders*

Dear Sirs or Madams,

#### **2018 CONTINUING CONNECTED TRANSACTIONS** **AND** **2019-2020 CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 11 April 2018 (the “**Circular**”) issued by the Company to its Shareholders of which this letter forms a part. Unless the context otherwise requires, capitalized terms used in this letter will have the same meanings as defined in the Circular.

On 29 December 2017, the Board decided to enter into the 2018 Continuing Connected Transactions as set out in the Circular, and approved the proposed annual cap for the year ending 31 December 2018.

Considering the continuity of the transaction and the continuity of the cooperation, on 19 March 2018, the Board decided to enter into the 2019-2020 Continuing Connected Transactions as set out in the Circular, and approved the proposed annual caps for the two years ending 31 December 2019 and 2020.

The 2018 Continuing Connected Transactions, the 2019-2020 Continuing Connected Transactions, and the respective proposed annual caps are subject to the reporting, annual review, announcement, circular (including independent financial advice) and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The terms and the reasons for entering into the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions are set out in the letter from the Board on pages 5 to 29 of the Circular.

We have been appointed to form the Independent Board Committee to make a recommendation to the Independent Shareholders as to whether the 2018 Continuing Connected Transactions, the 2019-2020 Continuing Connected Transactions, and the respective proposed annual caps are fair and reasonable and whether the transactions contemplated thereunder are in the interest of the Company and the Shareholders as a whole. Titan Financial has been appointed as the independent financial adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in this regard.

As the Independent Board Committee, we have discussed with the management of the Company the reasons for entering into the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions, and the respective proposed annual caps, their terms and the basis upon which the terms have been determined. We have also considered the key factors taken into account by Titan Financial in arriving at its opinion regarding the 2018 Continuing Connected Transactions, the 2019-2020 Continuing Connected Transactions, and the respective proposed annual caps as set out in the letter from Independent Financial Adviser on pages 32 to 57 of the Circular, which we urge you to read carefully.

The Independent Board Committee, after taking into account, amongst other things, the advice of Titan Financial, considers the terms of the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions and the transactions contemplated thereunder are in the best interest of the Company and the Shareholders as a whole and are fair and reasonable. The Independent Board Committee also considers the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions are carried out in the usual and ordinary course of business of the Group, on normal commercial terms or better and the respective proposed annual caps are fair and reasonable. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favor of the relevant resolutions to approve the 2018 Continuing Connected Transactions, the 2019-2020 Continuing Connected Transactions, and the respective proposed annual caps proposed at the Annual General Meeting.

Yours faithfully,

**Independent Board Committee**

<b>Mr. Xie Guoping</b>	<b>Mr. Lou Hetong</b>	<b>Mr. Zhao Jun</b>
<i>Independent</i>	<i>Independent</i>	<i>Independent</i>
<i>non-executive Director</i>	<i>non-executive Director</i>	<i>non-executive Director</i>

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Titan Financial Services Limited in respect of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transaction prepared for the purpose of inclusion in this circular.*



**Titan Financial Services Limited**  
Suites 3201-02, 32/F  
COSCO Tower, Grand Millennium Plaza  
183 Queen's Road Central  
Hong Kong

11 April 2018

*To the Independent Board Committee  
and the Independent Shareholders  
of China Hengshi Foundation Company Limited*

Dear Sirs,

### **2018 CONTINUING CONNECTED TRANSACTIONS AND 2019-2020 CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of 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, Details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular of the Company dated 11 April 2018 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings in this letter unless the context otherwise requires.

References are made to the announcements on the Company dated 1 January 2018, 19 January 2018 and 23 January 2018. On 29 December 2017, the Company entered into (i) the 2018 Yushi International Framework Agreement and (ii) the 2018 Shanghai Tianshi Framework Agreement, both for a term of one year commencing from 1 January 2018 and ending on 31 December 2018 (collectively referring to the “**2018 Continuing Connected Transactions**”). Further, reference is made to the announcement of Company dated 19 March 2018, the Company announced that the Company entered into (i) the 2019-2020 Yushi International Framework Agreement and (ii) the 2019-2020 Shanghai Tianshi Framework Agreement, both for a term of two years commencing from 1 January 2019 and ending on 31 December 2020 (collectively referring to the “**2019-2020 Continuing Connected Transactions**”).

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 letter, 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 letter, Yushi International is an associate of Mr. Zhang

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Yuqiang and therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the 2018 Yushi International Framework Agreement and 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 letter, 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 and 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 aggregated annual caps in respect of 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions, is more than 5% but less than 25%, the transactions constitute non-exempt continuing connected transactions (the “**Continuing Connected Transactions**”) for the Company and are subject to the reporting, announcement, annual review and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In addition, pursuant to the Listing Rules, any shareholder with a material interest in the relevant transaction is required to abstain from voting in relating to such transaction. As at Latest Practicable Date, each of Huachen Investment Limited and Huakai Investment Limited holds a total of 392,602,500 Shares and 131,015,500 Shares, respectively, representation approximately 32.96% and 13.10% of the issued share capital of the Company, respectively. Mr. Zhang Yuqiang directly held 95.95% issued share capital of Huachen Investment Limited and was deemed to be interested in the 329,602,500 Share held by Huachen Investment Limited. Mr. Zhang Jiankan directly held all issued share capital of Huakai Investment Limited and was deemed to be interested in the 131,015,500 Shares held by Huakai Investment Limited. Each of Mr. Zhang Yuqiang, Mr. Zhang Jiankan, Huachen Investment Limited and Huakai Investment Limited and their respective associates shall abstain from voting of the relevant ordinary resolutions in relation to the Continuing Connected Transaction. Save as the disclosed above, no other Shareholders are required to abstain from voting at the AGM.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Xie Guoping, Mr. Lou Hetong and Mr. Zhao Jun has been established to advise the Independent Shareholders regarding the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transaction on (i) whether the entering into of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions (including the aggregate of proposed annual caps) are in the ordinary and usual course of business of the Company, and in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions are on normal commercial terms and are fair and reasonable as far as the Independent Shareholders are concerned; (iii) whether the aggregate of proposed annual caps for the years ending 31 December 2018, 2019 and 2020, respectively are fair and reasonable and in the interest of the Company and Shareholder as a whole; and (iv) how the Independent

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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Shareholders should vote in respect of the relevant resolutions to approve the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions contemplated including the aggregate of proposed annual caps at the AGM. We, Titan Financial Services Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

As at the Latest Practicable Date, we were not aware of any relationships or interests between us and the Company or any other parties involved in the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions, or their respective connected person(s), that could reasonably be regarded as hindrance to our independence to act as the Independent Financial Adviser. Accordingly, we are considered eligible to give independent advice to the Independent Board Committee and the Independent Shareholders regarding the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions and the transactions contemplated thereunder. In addition to our appointment as the Independent Financial Adviser, we have not acted as the independent financial adviser in respect of any transactions of the Company in the past two years.

### **BASIS OF OUR OPINION**

In formulating our recommendation to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Directors and/or the management of the Company (the “**Management**”).

We have assumed that all information and representations provided by the Directors and/or the Management, for which they are solely and wholly responsible for are true, accurate and complete in all material respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquires and careful consideration by the Directors and there are no other facts not contained in the Circular the omission of which would make any such statement contained in the Circular misleading. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Directors and/or the Management nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group, the connected persons, and any of their subsidiaries or the prospects of the markets in which they respectively operate.

The Directors have collectively and individually accepted full responsibility for all information given with regard to the Company including particulars given in compliance with the Listing Rules. The Directors have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or the Circular misleading.

This letter was issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in respect of the Continuing Connected Transactions.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration of the following principal factors and reasons. Our conclusions are based on the results of our analyses taken as a whole.

#### A. THE 2018 CONTINUING CONNECTED TRANSACTIONS AND 2019-2020 CONTINUING CONNECTED TRANSACTIONS

##### I. Background of and reasons for entering into the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions

###### *Information of the Group*

The Group is the world's leading manufacturer and supplier of fiberglass fabrics used in wind turbine blades and is mainly engaged in the researching, developing, manufacturing and selling of fiberglass fabrics with various technical specifications. The table below sets out the summary financial information of the Group (i) the two financial years ended 31 December 2015 and 2016 (“FY2015” and “FY2016”, respectively) as extracted from the annual report for the year ended 31 December 2016 (the “AR2016”); and (ii) the six months ended 30 June 2016 and 2017 (“1H2016” and “1H2017”, respectively) as extracted from the interim report for the six months ended 30 June 2017 (the “IR2017”).

Exhibit: Consolidated financial results of the Group

	For the year ended		For the six months ended	
	31 December		30 June	
	2015	2016	2016	2017
	(audited)	(audited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,002,901	1,236,439	613,031	594,004
Profit for the year/period attributable to the owners of the Company	181,492	252,833	111,714	105,102

As set out in AR2016, the Group recorded an increase in revenue of approximately RMB233.5 million, 23.3%, from approximately RMB1,002.9 million for FY2015 to approximately RMB1,236.4 million for FY2016. The increase in revenue was due to the fact that (i) the Group actively responded and explored customers' demands, actively adjusted its products structure, and continuously improved the sales structure of the products so as to further increase the product sales; (ii) the Group adjusted and increased the overseas sale proportion in a timely manner, resulting in the increase in overseas revenue; and (iii) the Group continued to strengthen the market expansion, and the orders from the existing customers and new customers increased steadily. On the other hand, the Group recorded an increase in the profit for the year attributable to the owners of the Company of approximately RMB71.3 million, 39.3%, from approximately RMB181.5 million for

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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FY2015 to approximately RMB252.8 million for FY2016 which was mainly due to (i) increase of gross profit of approximately RMB122.2 million; and (ii) increase in the other income of approximately RMB20.3 million, which partially offset by (i) the decrease in the other gain of approximately RMB32.1 million; (ii) the increase in selling and distribution expenses of approximately RMB22.6 million; and (iii) the increase in administrative expenses of approximately RMB24.3 million.

As for IR2017, the Group recorded a decrease in revenue of approximately RMB19.0 million, 3.1%, from approximately RMB613.0 million for 1H2016 to approximately RMB594.0 million for 1H2017. As advised by the Management, the decrease in revenue was due to (i) the overall correction occurred in the domestic wind power market in the first half of the year resulted in a decrease of approximately 22.4% in the newly installed domestic wind power capacity, leading to an unavoidable decrease in the sales volume of the Group in the domestic market; and (ii) the Group has timely adjusted its production and sales strategies by actively reducing some customers' credit limits to prevent market risk and control credit risk, resulting in the reduction of sales revenue from domestic market, however, with its impeccable advantages, stable product quality and good customer services, sales revenue from overseas market still maintain a stable growth. On the other hand, the Group recorded a decrease for the profit for the year attributable to the owners of the Company of approximately RMB6.6 million, 5.9%, from approximately RMB111.7 million for 1H2016 to approximately RMB105.1 million for 1H2017 which was mainly attributable to the government grant of approximately RMB10.6 million received in the 1H2016, while the government grant received was only approximately RMB0.8 million in 1H2017.

### *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. Zhenshi, of which Mr. Zhang Yuqiang is interested in 70.28% of the registered capital, is an associate of Mr. Zhang Yuqiang and a connected person to the Company. As Zhenshi holds 92.859% of registered capital in Yushi International, Yushi International is an associate of Mr. Zhang Yuqiang and therefore a connected person to the Company.

### *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. Shanghai Tianshi, of which Mr. Zhang Jiankan is interested in 70% of the registered capital, is an associate of Mr. Zhang Jiankan and therefore a connected person of the Company.

### *Reasons for entering into the Transactions*

As discussed with the Management, the Group requires logistics services and export agency services to transport the fiberglass materials to the production plants of the Company to manufacture the products specified in the contracts for wind turbine blade sector and

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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transport the products from the production plants to customers in the regions of PRC and overseas, therefore the Group has to engage a service provider to provide the services mentioned herein. After taking an internal selection procedures, the Group has obtained at least three quotations for each of the Logistics Services and Export Agency Services and has entered the following framework agreements with Yushi International and Shanghai Tianshi, respectively:

### *Yushi International Framework Agreement*

As stated in the Letter from the Board, Yushi International has been appointed as one of the logistics agents on an annual basis following competitive tender processes since 2013 to provide Logistics Services to the Group, which include (i) transporting the fiberglass purchased by the Company from China Jushi Co., Ltd. and its subsidiaries to the production plants of the Group; (ii) transporting the products from the Group to its domestic and/or overseas customers; (iii) providing to the Group export agency services, including freight booking and customs clearance, in respect of the fiberglass products which are manufactured by the Group to its overseas customers; and (iv) providing to the Group import agency services, including customs declaration and domestic transportation, in respect of imported raw materials. 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.

### *Shanghai Tianshi Framework Agreement*

As stated in the Letter from the Board, the Group engages Shanghai Tianshi as one of their export agents to provide export-related services including freight booking and customs clearance to export its fiberglass fabric products to its customers overseas. Following a competitive tender process since 2012 to provide Export Agency Service 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 Americas, European and other places.

With reference to the prospectus of the Company dated 8 December 2015, the Company engaged Yushi International and Shanghai Tianshi for the provision of the Logistics Services and Export Agency Services from 21 December 2015 to 31 December 2017. As the Yushi International Framework Agreement dated 2 December 2015 and Shanghai Tianshi Framework Agreement dated 2 December 2015 were both expired on 31 December 2017, it is necessary for the Company to enter into the new framework agreements with Yushi International and Shanghai Tianshi for the continuation of the provision of Logistics Services and Export Agency Services. As discussed with the Management, the services provided by Yushi International and Shanghai Tianshi were satisfied and believed that the long relationship between Yushi International and Shanghai Tianshi since 2013 and 2012, respectively and their familiarisation of business operation on the Company would bring the synergy for the upcoming business development of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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As set out in the paragraph headed “Information of the Group” above, we noted that the increase in revenue in FY2016 was mainly attributable to the (i) increase in customers’ demands; (ii) expansion of sales in overseas regions; and (iii) increase in orders of the existing and new customers with market expansion. Moreover, apart from the fact that the production plant in Suez of Egypt has successfully entered the mass production and supply stage for the year ended 31 December 2016 as mentioned in the AR2016, we were given to understand from the Management that the under-constructed production plants in State of South Carolina of United States will be entered the mass production in the first half of 2018. Therefore, the Management has estimated that there will be increase in the demand of the Logistics Services and Export Agency Services in the coming three years ending 31 December 2020. As such, we considered that the Company entering the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions with Yushi International and Shanghai Tianshi can allow the Group to secure a reliable source of Logistics Services and Export Agency Services to fulfill the upcoming increase in services demand and we concur with the Directors’ view that the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions are entered into in the ordinary and usual course of business of the Group.

### **II. 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions**

#### **A. 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement**

Date: 29 December 2017 (for 2018 Yushi International Framework Agreement); 19 March 2018 (for 2019-2020 Yushi International Framework Agreement)

Parties: (1) the Company  
(2) Yushi International

Term : From 1 January 2018 to 31 December 2018 (for 2018 Yushi International Framework Agreement); From 1 January 2019 to 31 December 2020 (for 2019-2020 Yushi International Framework Agreement)

For the description of future transaction and principal terms, please refer to the paragraphs headed “2018 Yushi International Framework Agreement” and “2019-2020 Yushi International Framework Agreement” in the Letter from the Board for details.

#### ***Price determination***

Pursuant to the Letter from the Board, 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 independent logistics



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agents, as well as quotation from Yushi International. 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 quotations 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. The selected logistics agent is not entitled to deviate from the pre-determined price schedule in providing the Logistics Services to the Group under all circumstances. Historically all previously selected logistics agents did not deviate from any pre-determined price schedules in providing the Logistics Services to the Group before. This pricing mechanism ensures that the pricing terms at which the Group solicits the Logistics Services from a logistics agent are fair and reasonable.

Although the tender process to select the logistics agents which will provide Logistics Services to the Group for 2019 and 2020 has not commenced and Yushi International has entered into the 2019-2020 Yushi International Framework Agreement with the Group on 19 March 2018, the Group will still conduct the competitive tender process to select suitable logistics agents at the beginning of each of 2019 and 2020. If Yushi International is not selected as the logistics agent of the Group during the relevant tender process with the consideration of the numbers of factors as mentioned above in 2019 and/or 2020, the Group is entitled to terminate the 2019-2020 Yushi International Framework Agreement and select another logistics agent which could offer more favourable terms to the Group. In the event that the framework agreement is terminated in 2019 and/or 2020, appropriate disclosures will be made by the group's announcement and in its annual report of relevant year.

### ***Pricing Policy under the 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement***

The Company and Yushi International entered into the 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement with the pre-determined price schedule which is determined with reference to the final quotation provided by Yushi International during the competitive tender process. The methods of calculating the amount payable (including land transportation services to the Group's domestic customers and export agency services to overseas customers) by the Company to Yushi International for the procurement of the Logistics Services in accordance with the pre-determined price schedule in the 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement are set out as follows:

- (a) Fees of land transportation services to the Group's domestic customer:
  - (i) The total amount payable by the Company to Yushi International for the procurement of land transportation services to the Group's domestic customers is the aggregate of total expected fees of land transportation services from Yushi International to the Group's domestic customers employing the relevant services from Yushi International.

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- (ii) Expected fees of land transportation services from Yushi International to a domestic customer in the current year = expected sales of such domestic customer by the Company in the current year x pre-determined unit price (for bulk cargo: calculated in RMB/ton; for batch supply: calculated in RMB/vehicle).
  - (iii) For instance, the expected fee of land transportation services provided by Yushi International from Tongxiang to Beijing, from Tongxiang to Tianjian, and from Tongxiang to Zhongshan, ranges from (i) RMB13,600 to RMB13,900 per vehicle, from RMB10,400 to RMB10,700 per vehicle and from RMB17,200 to RMB17,700 per vehicle respectively, for 2018 Yushi International Framework Agreement; and (ii) RMB14,335 to RMB15,050 per vehicle, from RMB11,025 to RMB11,580 per vehicle and from RMB18,220 to RMB19,130 per vehicle respectively, for 2019-2020 Yushi International Framework Agreement.
- (b) Fees of export agency services to the Group's overseas customer:
- (i) The total amount payable by the Company to Yushi International for the procurement of export agency services to the Group's overseas customers is the aggregate of total expected fees of export agency services from Yushi International to the Group's overseas customers in Europe employing the relevant services from Yushi International.
  - (ii) Expected fees of export agency services from Yushi International to an overseas customer = the aggregate of (i) the land transportation fees from a production base to a sea port (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price); and (ii) the export agency services fees from a sea port to such customer's destination (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price).
  - (iii) For instance, the expected fee of export agency services provided by Yushi International from Shanghai to Izmir Port, from Shanghai to Nhava Sheva and from Shanghai to Chennai, ranges from (i) USD1,350 to USD1,390 per container, from USD840 to USD870 per container and from US510 to US525 per container respectively, for 2018 Yushi International Framework Agreement; and (ii) USD1,435 to USD 1,505 per container, from USD895 to USD940 per container and from USD540 to USD570 per container respectively, for 2019-2020 Yushi International Framework Agreement.

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The above pre-determined price schedule has been determined after arm's length negotiation with reference to the following factors:

- (i) the quotation of each of the potential logistics agents submitted during the competitive tender process in 2018, and
- (ii) the actual unit price of Logistics Services procured by the Company in the past years.

### *Proportion of Logistics Services to be provided by Yushi International*

For the year ended 31 December 2017, four logistics agents (inclusive of Yushi International) have been appointed by the Company on an annual basis as logistics agents of the Company following the competitive tender process to provide the Logistics Services to the Company. For the years ending 31 December 2018, three logistics agents (inclusive of Yushi International, subject to the Independent Shareholders' approval at the AGM) have been appointed by the Company on an annual basis as logistics agents of the Company following the competitive tender process to provide the Logistics Services to the Company.

For the three years ending 31 December 2018, 2019 and 2020, the expected proportion of the amount to be spent on the procurement of the Logistics Services from Yushi International in estimated total amount to be spent on the procurement of the Logistic Services and Export Agency Services from all selected logistics agents and export agents are approximately 52.2%, 51.6% and 51.0%, respectively (based on the Logistics Services provided by Yushi International to the total estimated amount to be spent on the Logistics Services and Export Agency Services, i.e. a total of estimated amount spent on the seven service providers in 2017).

The proportion of services to be procured from each of the selected logistics agents of the Company has been determined by the Company at the beginning of each year with reference to the following factors:

- (i) the estimated total amount to be spent on the Logistics Services which is calculated based on the estimated proportion of domestic and international sales and the distribution of customers;
- (ii) the Company's distribution plan to customers located in the PRC, Europe, North America and other places; and
- (iii) the strengths of each logistics agents in different regions and transportation routes.

Pursuant to the Letter from the Board Yushi International mainly provides land transportation services to the Group's domestic customers which require domestic batch supply services and long-distance services and are located in the northwestern, northeastern, eastern and southwestern regions of the PRC due to the following factors: (a) Yushi International is a large-scale multi-functional logistics service

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company which is the leading logistics enterprise in Zhejiang Province in the PRC and is the only national AAAA class transportation company in Jiaying City in the PRC; (b) Yushi International has abundant resources in terms of Logistics Services and is able to satisfy the demand for Logistics Services of the Company in different aspects; and (c) the quotation provided by Yushi International is lower than other potential logistics agents.

Yushi International also mainly provides export agency services for our major long-term customers in Europe due to the following factors: (a) Yushi International has set up offices in the Company's major port for export located in Shanghai; (b) Yushi International has well established connection with different partners and clients in Europe, and maintains long-term working relationships with many freight forwarding companies and customs clearance companies in the PRC and Europe, which can ensure the timely clearance of the Company's products from customs and the provision of appropriate transportation services; (c) with long-term experience in serving the major European customers of the Company, Yushi International is able to understand the needs of the Group's European customers, to provide rapid and timely transportation services and to timely and accurately report shipment status of transported goods to the Company and the Group's European customers; and (d) given the comparative advantages of Yushi International in terms of its scale and resources of transportation services, the quotation provided by Yushi International is lower than other potential logistics agents; and the remaining three logistics agents mainly provide the Logistic Services to the Group's customers which require short-distance services and bulk cargo transportation services and are located in the surrounding areas of the Company in the event that (a) Yushi International is unable to meet the service needs of the Company; and (b) some of the Group's customers have designated such logistics agent(s) to provide the Logistics Services.

### *Our work and analysis*

In assessing the fairness and reasonableness of the term, the fees and the pricing policy of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions, we have obtained and reviewed (i) the signed copies of (a) Yushi International Framework Agreement dated 2 December 2015 for the service period from 21 December 2015 to 31 December 2017; (b) 2018 Yushi International Framework Agreement; and (c) 2019-2020 Yushi International Agreement entered between the Company and Yushi International; (ii) three samples of quotations from independent third party logistics agents during the tender process in the year of 2018; (iii) the final quotation by Yushi International submitted during the tender process in 2017 and 2018; and (iv) the internal control policy related to the tender process implemented by the Group since February 2015.

We noted that (i) the Group will conduct a competitive tender process at the beginning of each year for the selection of logistics agent with the assessment of a number of factors including prices, service levels, geographical location and scale of operation. As discussed with the Management, the prices offered should be the major factor in the consideration of the selection of the logistic agent. With reference to the three samples of quotations submitted by the independent third party logistics agents

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during the tender process, it is noted that the services levels, geographical location and the scale of operation of the independent third party logistics agents were similar to Yushi International, as for the prices factor, the prices offered by Yushi International were in market rates with only slightly lower than the independent third party logistics agents by approximately 2% to 5%, therefore it is more cost effective for the Company to consider Yushi International as the selected logistics agents; (ii) the principal terms of the 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Agreement have no material difference from the principal terms of the Yushi International Framework Agreement dated 2 December 2015 for the service period from 21 December 2015 to 31 December 2017; and (iii) with reference to the description of future transaction and principal terms of 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement as stated in the Letter from the Board, the Group is entitled to procure logistic services from independent third parties if independent third parties can offer terms more favorable than those offered by it; (iv) the three sample quotations by the independent third party logistics agents and the quotation by Yushi International obtained during the tender process which indicate the price in terms of RMB/vehicles and RMB/ton for local delivery to domestic customers and RMB/standard container for the delivery to overseas customers, therefore there is no material difference between the calculating methods of the amount payable to Yushi International and the independent third party logistics agents; (v) the final quotation by Yushi International was the pre-determined price schedule for the service term of one year; (vi) the internal control policy related to the tender process by the Group requires to invite at least three independent third party logistics agents by obtaining their quotations after understanding the services requirements of the Group, and the Group will compare the quotation of each of the logistics agents by reference to the respective price and quality of services and will inform the selected logistics agents by telephone to arrange the signing of service agreement; and (vii) the official website of Yushi International “<http://www.yushiwl.com/>” and the final quotation obtained by Yushi International which indicated Yushi International is a large scale multi-functional logistics services company in the PRC which is the only national AAAA class transportation Company in Jianxing City in the PRC and mainly provides Logistics Services in the geographical areas as mentioned in the paragraph headed “Proportion of Logistics Services to be provided by Yushi International” above. Based on the above analysis, it is noted that the terms and the fees offered by Yushi International to the Group was slightly more favorable to the Group as compared to that offered by independent third parties logistics agents.

Taking into account of the factors above, in particular, (i) Yushi International is appointed on an annual basis as the Company’s logistics agents following a competitive tender process and the terms and fees offered by Yushi International is similar to the independent third party logistics agents; (ii) no material difference of 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Agreement as compared with the previous framework agreement dated 2 December 2015; (iii) the Group is entitled to procure other independent logistics services agents if independent third parties can offer terms more favorable than those offered by it; (iv) no material difference between the calculation methods of the amount payable to Yushi International and the independent third party logistics agents; (v) the

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pre-determined price schedules is based on the final quotation by Yushi International during the tender process and for a term of one year; (vi) proper internal control policy is implemented by the Group on the tender process; and (vii) the Logistics Services provided by Yushi International is mainly located in northwestern, northeastern, eastern and southwestern regions of the PRC and the regions of Europe, therefore, we concur with the Directors' view and are of the view that the terms, the fees and the pricing policy under the 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

**B. *2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement***

Date: 29 December 2017 (for 2018 Shanghai Tianshi Framework Agreement); 19 March 2018 (for 2019-2020 Shanghai Tianshi Framework Agreement)

Parties: (1) the Company  
(2) Shanghai Tianshi

Term: From 1 January 2018 to 31 December 2018 (for 2018 Shanghai Tianshi Framework Agreement); From 1 January 2019 to 31 December 2020 (for 2019-2020 Shanghai Tianshi Framework Agreement)

For the description of future transaction and principal terms, please refer to the paragraphs headed "2018 Shanghai Tianshi Framework Agreement" and "2019-2020 Shanghai Tianshi Framework Agreement" in the Letter from the Board for details.

***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 independent export agents, as well as quotation from Shanghai Tianshi. 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 quotations 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. The selected export agent is not entitled to deviate from the pre-determined price schedule in providing the Export Agency Services to the Group under all circumstances. Historically all previously selected export agents did not deviate from any pre-determined price schedules in providing the Export

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Agency Services to the Group before. This pricing mechanism ensures that the pricing terms at which the Group solicits Export Agency Services from an export agents are fair and reasonable.

Although the tender process to select the export agents which will provide Export Agency Services to the Group for 2019 and 2020 has not commenced and Shanghai Tianshi has entered into the 2019-2020 Shanghai Tianshi Framework Agreement with the Group on 19 March 2018, the Group will still conduct the competitive tender process to select suitable export agents at the beginning of each of 2019 and 2020. If Shanghai Tianshi is not selected as the export agent of the Group during the relevant tender process with the consideration of the numbers of factors as mentioned above in 2019 and/or 2020, the Group is entitled to terminate the 2019-2020 Shanghai Tianshi Framework Agreement and select another export agent which could offer more favourable terms to the Group. In the event that the framework agreement is terminated in 2019 and/or 2020, appropriate disclosures will be made by the group's announcement and in its annual report of relevant year.

### ***Pricing Policy under the 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement***

The Company and Shanghai Tianshi entered into the 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework with the pre-determined price schedule which is determined with reference to the final quotation provided by Shanghai Tianshi during the competitive tender process. The methods of calculating the amount payable by the Company to Shanghai Tianshi for the procurement of the Export Agency Services in accordance with the pre-determined price schedule in the 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement are set out as follows:

Fees of Export Agency Services to the Group's overseas customer:

- (i) The total amount payable by the Company to Shanghai Tianshi for the procurement of Export Agency Services to the Group's overseas customers is the aggregate of total expected fees of Export Agency Services from Shanghai Tianshi to the Group's overseas customers in North America and Europe employing the relevant services from Shanghai Tianshi.
- (ii) Expected fees of Export Agency Services from Shanghai Tianshi to an overseas customer = the aggregate of (i) the land transportation fees from a production base to a sea port (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price); and (ii) the Export Agency Services fees from a sea port to such customer's destination (the number of standard container (as calculated in accordance with the expected demand of such customer) × pre-determined unit price).
- (iii) For instance, the expected fee of Export Agency Services provided by Shanghai Tianshi from Shanghai to Kansas City, from Shanghai to Moberley

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and from Shanghai to Irwindale, ranges from (i) USD3,700 to USD3,885 per container, from USD3,900 to US4,100 per container and from US\$2,000 to US2,100 per container respectively, for 2018 Shanghai Tianshi Framework Agreement; and (ii) USD3,885 to USD4,080 per container, from USD4,100 to USD4,305 per container and from USD2,100 to USD2,205 per container respectively, for 2019-2020 Shanghai Tianshi Framework Agreement.

The above pre-determined price schedule has been determined after arm's length negotiation with reference to the following factors:

- (i) the quotation of each of the potential export agents submitted during the competitive tender process in 2018, and
- (ii) the actual unit price of Export Agency Services procured by the Company in the past years.

### *Proportion of Export Agency Services to be provided by Shanghai Tianshi*

For the year ended 31 December 2017, three export agents (inclusive of Shanghai Tianshi) have been appointed by the Company on an annual basis as export agents of the Company following the competitive tender process to provide the Export Agency Services to the Company. For the year ending 31 December 2018, three export agents (inclusive of Shanghai Tianshi, subject to the Independent Shareholders' approval at the AGM) have been appointed by the Company on an annual basis as export agents of the Company following the competitive tender process to provide the Export Agency Services to the Company.

For the three years ending 31 December 2018, 2019 and 2020, the expected proportion of the amount to be spent on the procurement of Export Agency Services from Shanghai Tianshi in estimated total amount to be spent on the procurement of the Logistic Services and the Export Agency Services from all selected logistics agents and export agents are approximately 34.8%, 34.4% and 34.0%, respectively (based on the Export Agency Services provided by Shanghai Tianshi to the total estimated amount to be spent on the Logistics Services and Export Agency Services, i.e. a total of estimated amount spent on the seven service providers in 2017).

The proportion of services to be procured from each of the selected export agents of the Company has been determined by the Company at the beginning of each year with reference to the following factors:

- (i) the estimated total amount to be spent on the Export Agency Services which is calculated based on the estimated proportion of domestic and international sales and the distribution of customers;
- (ii) the Company's distribution plan to customers located in the PRC, Europe, North America and other places;



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- (iii) the increase in the proportion of business undertaken by Shanghai Tianshi following the completion of the Group's overseas bases; and
- (iv) the strengths of each export agents in different regions and transportation routes.

Pursuant to the Letter from the Board Shanghai Tianshi mainly provides the Export Agency Services to the Group's customers in North America due to the following factors: (a) Shanghai Tianshi has been operating in the North American market for many years and has well-established connection with different partners and clients in North America, and maintains long-term working relationships with many local freight forwarding companies and customs clearance companies, which can ensure timely clearance of the Company's products from customs and the provision of appropriate transportation services; and (b) the quotation for Export Agency Services in North American market provided by Shanghai Tianshi is lower than other potential export agents.

Shanghai Tianshi also mainly provides the Export Agency Services for the Group's products from the Group's production sites in Egypt to the Group's customers in Europe since Shanghai Tianshi has set up offices in Egypt and it has abundant local transportation resources to ensure the timely clearance of the Company's products from customs and the provision of appropriate transportation services; and the remaining two export agents mainly provide the Export Agency Services to a small number of the Group's customers in North America and Europe in the event that (a) Shanghai Tianshi is unable to meet the service needs of the Company; and (b) the Group's customers have designated such export agent(s) to provide the Export Agency Services.

### *Our work and analysis*

In assessing the fairness and reasonableness of the terms, the fees and the pricing policy of the framework agreements, we have obtained and reviewed (i) the signed agreements of (a) Shanghai Tianshi Framework Agreements dated 2 December 2015 for the service period from 21 December 2015 to 31 December 2017; (b) 2018 Shanghai Tianshi Framework Agreement; and (c) 2019-2020 Shanghai Tianshi Framework Agreement entered between the Company and Shanghai Tianshi; (ii) three samples of quotations from independent export agents during the tender process in the year of 2018; (iii) the final quotation by Shanghai Tianshi International submitted during the tender process in 2017 and 2018; and (iv) the internal control policy related to the tender process implemented by the Group since February 2015.

We noted that (i) the Group will conduct a competitive tender process at the beginning of each year for the selection of export agents with the assessment of a number of factors including prices, service levels, geographical location and scale of operation. As discussed with the Management, the prices offered should be the major factor in the consideration of the selection of the export agent. With reference to the three samples of quotations offered by the independent export agents during the tender

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process, it is noted that the services levels, geographical location and scale of operation of the independent export agents were similar to Shanghai Tianshi, as for the prices factor, the prices offered by Shanghai Tianshi were in market rates with slightly lower than the independent export agents by approximately 2% to 6%, therefore it is more cost effective for the Company to consider Shanghai Tianshi as the selected export agent; (ii) the principal terms of the 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement, have no material difference from the principal terms of the Shanghai Tianshi Framework Agreement dated 2 December 2015 for the service period from 21 December 2015 to 31 December 2017; (iii) with reference to the description of future transaction and principal terms of 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement as stated in the Letter from the Board, the Group is entitled to procure export agency services from independent third parties if independent third parties can offer terms more favorable than those offered by it; (iv) the three sample quotations by independent export agents and the quotation by Shanghai Tianshi obtained during the tender process which indicate the price in terms of RMB/standard container for the delivery to overseas customers, therefore there is no material difference between the calculating methods of the amount payable to Shanghai Tianshi and the independent third party export agents; (v) the final quotation by Shanghai Tianshi was the pre-determined price schedule for the services term of one year; (vi) the internal control policy related to the tender process by the Group requires to invite at least three independent export agents by obtaining their quotations after understanding the services requirements of the Group, and the Group will compare the quotation of each of the export agents by reference to the respective price and quality of services and will inform the selected export agents by telephone to arrange the signing of service agreement; and (vii) the final quotation obtained by Shanghai Tianshi which indicated Shanghai Tianshi mainly provides Export Agency Services in the geographical areas as mentioned in the paragraph headed “Proportion of Export Agency Services to be provided by Shanghai Tianshi” above. Based on the above analysis, it is noted that the terms and the fees offered by Shanghai Tianshi to the Group was slightly more favorable to the Group as compared to that offered by independent third parties.

Taking into account of the factors above, in particular, (i) Shanghai Tianshi is appointed on an annual basis as the Company’s export agent following a competitive tender process and the terms and fees offered by Shanghai Tianshi is similar to the independent third party export agents; (ii) no material difference of 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement as compared with the previous framework agreement dated 2 December 2015; (iii) the Group is entitled to procure other independent export agency services agents if independent third parties can offer terms more favorable than those offered by it; (iv) no material difference between the calculation methods of the amount payable to Shanghai Tianshi and the independent third party export agents; (v) the pre-determined price schedules is based on the final quotation by Shanghai Tianshi during the tender process and for a term of one year; (vi) proper internal control policy is implemented by the Group on the tender process; and (vii) the Export Agency Services provided by Shanghai Tianshi is mainly located in the regions of North America and from the production sites in Egypt to customers in Europe,

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therefore, we concur with the Directors' view and are of the view that the terms, the fees and the pricing policy under the 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

### III. The proposed annual caps

#### A. 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement

Set out below is the 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 2019-2020 Yushi International Framework Agreement.

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Proposed annual cap	61,393	74,097	89,085

As stated from the Letter from the Board, the proposed annual caps for the transactions under 2018 Yushi International Framework Agreement and 2019-2020 Yushi International 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 the Group's products due to the expected continuous growth in demand for the wind power products with the continuous support of the Government policy issued by National Energy Administration in the PRC named "風電發展十三五規劃" ("Wind Power Development 13th Five-Year Plan"); (iii) the expected increase in sales volume of the Group's products in the PRC region of approximately 12% to 17% on a year-on-year basis from 2018 to 2020; (iv) the expected increase of international and PRC freight fee of approximately 5% on a year-on-year basis from 2018 to 2020; (v) the expected mix of international and PRC orders of the Group, that is the expected delivery volume (in tonnes) of international and the PRC orders of the Group of approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020; (vi) the expected proportion of the Logistics Services to be provided by Yushi International; and (vii) in determining the aforementioned annual cap, the Company assumes a gradually decreasing trend of the proportion of Logistics Services to be provided by Yushi International.

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In order to assess the fairness and reasonableness of the proposed annual caps under the 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement, we have performed the following analysis with the findings as below:

- (a) In respect of the historical transaction amounts in relationship to the previous Yushi International Framework Agreement, set out in the table below with the respective annual caps for the three years ended 31 December 2017:

	<b>For the year ended 31 December 2015 <i>RMB'000</i></b>	<b>For the year ended 31 December 2016 <i>RMB'000</i></b>	<b>For the year ended 31 December 2017 <i>RMB'000</i></b>
Historical transaction amount	42,585	54,050	53,878
Previous annual cap	45,808	54,407	72,225

As set out in the table above, the historical transaction amounts were approximately RMB42.858 million, RMB54.050 million and RMB53.878 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing the utilisation rates of the approved annual caps of approximately 93.0%, 99.3% and 74.6%, respectively. In respect of the historical utilisation rate, the utilisation rate for the years ended 31 December 2015 and 2016 had achieved above approximately 90.0%, while the utilisation rate for the year ended 31 December 2017 had decreased to approximately 74.6%. As discussed with the Management, the decrease of the utilisation rate for the year ended 31 December 2017 was due to decrease in the transaction amount between the Company and Yushi International for the year ended 31 December 2017 as resulted from overall correction occurred in the domestic wind power market in 1H2017 resulted in the decrease of newly installed domestic wind power market, and therefore the demand on the Logistics Services by Yushi International slightly decreased for the year ended 31 December 2017. As discussed with the Management, the overall market correction in the domestic market was just a short term effect to the Company with the continuous support of the Government policy issued by National Energy Administration in China named “風電發展十三五規劃” (“Wind Power Development 13th Five-Year Plan”), therefore we believe the demand for the wind power products will continuous to grow which in-turn increase in demand of logistics services by the Company.

- (b) In respect of the targeted growth of the sales of the product and the expected international and PRC freight fee, we have obtained and reviewed the targeted sales for the years ending 31 December 2018 to 2020 prepared by the Management. It is expected that the growth of the Logistics Services provided by Yushi International will be expected to increase by approximately 20% on a year-on-year basis from 2018 to 2020. As discussed with the Management, the

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growth of Logistics Services by Yushi international is based on (i) the expected increase of international and PRC freight fee of approximately 5% on a year-on-year basis from 2018 to 2020; and (ii) the expected increase in sales volume of the Logistics Services in the PRC region. We have obtained and reviewed the international and PRC freight fee quotations of 2017 and 2018 from the independent third party logistic agents, the freight fee was adjusted upward by approximately 5% to 11% depending on the locations and destinations, therefore we considered that the use of the expected increase in international and PRC freight fee of approximately 5% is a conservative basis for the estimated targeted growth of sales. We also discussed with the Management about the expected increase in sales volume in the PRC region which is estimated to be approximately 12% to 17% on a year-to-year basis from 2018 to 2020. The targeted increase in sales demand in PRC region is primarily due to the expected increase in the market demand in the PRC region which is supported by the Government policy on strengthening the development of renewable energy in China. According to the policy named “風電發展十三五規劃” (“Wind Power Development 13th Five-Year Plan”) issued by the National Energy Administration in China in November 2016, it promotes the use of wind power energy and the sustainable development of wind power industry in various aspects. Further in July 2017, the National Energy Administration in China issued a plan on “2017-2020年風電新增建設規模方案” (“Wind Power Addition Construction Scale Plan for 2017-2020”) and planned to increase the wind power installation machines by 110.41 Gigawatts for 2017 to 2020 in total. As such, the Management represents that there will be increased in customers’ demand on the wind turbine blade products in PRC region and accordingly there will be higher demand of Logistics Services by Yushi International. In light of the foregoing, we consider that the basis and the assumptions used in the targeted growth of the Logistics Services by Yushi International is fair and reasonable in determining the proposed annual caps.

- (c) In respect of the expected mix of international and PRC orders of the Group, the expected delivery volume in tonnes of international and the PRC orders of the Group will be approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020. We have reviewed the historical delivery volume in tonnes from 2015 to 2017 to the Group in terms of geographical areas, the historical delivery volume in tonnes of international and PRC orders was approximately 49% to 53% and approximately 47% to 51%, respectively, which indicated that the expected mix of international and PRC orders estimated by the Management is align with the historical delivery volume record and together with the consideration of other factors of the targeted growth of the sales of the product and the expected international and PRC freight fee, therefore it is considered to be a fair and reasonable measure to derive the proposed annual caps.

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- (d) In respect of the expected proportion of the Logistics Services to be provided by Yushi International, the expected proportion of the amount to be spent on the procurement of the Logistics Services from Yushi International in estimated total amount to be spent on the procurement of the Logistic Services and Export Agency Services from all selected logistics agents and export agents prepared by the Management are approximately 52.2%, 51.6% and 51.0% for the three years ended 31 December 2018, 2019 and 2020, respectively, which indicates that the expected proportion of Logistics Services provided by Yushi International to the total estimated amount to be spent on the Logistics Services and Export Agency Services will be in a gradually decreasing trend. Therefore it is considered to be a fair and reasonable measure to derive the proposed annual caps.

Taking into consideration of our findings as discussed at the above, we concur with the view of the Directors that the assumptions made and the factors used to determine the proposed annual caps for 2018 Yushi International Framework Agreement and 2019-2020 Yushi International Framework Agreement are fair and reasonable.

***B. 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement***

Set out below is the proposed annual caps for the years ending 31 December 2018, 2019 and 2020 in relation of procurement of Export Agency Services from Shanghai Tianshi under the 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement.

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Proposed annual cap	40,928	49,398	59,390

As stated from the Letter from the Board, the proposed annual caps of 2018 Shanghai Tianshi Framework Agreement and 2019-2020 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 the Group's products due to the new production plant in Suez of Egypt which has successfully entered into the mass production and supply stage; (iii) the expected increase in sales volume of the products in the overseas regions (primarily in Americas, Egypt and other regions) of approximately 16% to 17% on a year-on-year basis from 2018 to 2020; (iv) the expected increase of international freight fee of approximately 5% on a year-on-year basis from 2018 to 2020; (v) the expected mix of the international and PRC orders of the Group, that is the expected delivery volume in tonnes of international and the PRC orders of the Group of approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020; (vi) the

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expected proportion of the Export Agency Services to be provided by Shanghai Tianshi; and (vii) in determining the aforementioned annual cap, the Company assumes a gradually decreasing trend of the proportion of Export Agency Services to be provided by Shanghai Tianshi.

In order to assess the fairness and reasonableness of the proposed annual caps of 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement, we have performed the following analysis with the findings as below:

- (a) In respect of the historical transaction amounts in relationship to the previous Shanghai Tianshi Framework Agreement, set out in the below table with the respective annual caps for the three years ended 31 December 2017:

	<b>For the year ended 31 December 2015 RMB'000</b>	<b>For the year ended 31 December 2016 RMB'000</b>	<b>For the year ended 31 December 2017 RMB'000</b>
Historical transaction amount	11,053	14,957	20,124
Previous annual cap	13,810	15,854	20,297

As set out in the table above, the historical transaction amounts were approximately RMB11.053 million, RMB14.957 million and RMB20.124 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing the utilisation rates of the approved annual caps of approximately 80.0%, 94.3% and 99.1%, respectively. In respect of the historical utilisation rate, it indicated an increasing trend of the utilisation rate from approximately 80.0% for the year ended 31 December 2015 to approximately 99.1% for the year ended 31 December 2017. As discussed with the Management, the increase in the utilisation rate was due to increase in historical transaction amount between the Company and Shanghai Tianshi for the year ended 31 December 2017 as a result from the new production plant in Suez of Egypt successfully entered the mass production and supply stage for the year ended 31 December 2016. As discussed with the Management, the Group shifted part of the international orders from the production plant in Zhejiang of China to the new production plant in Suez of Egypt and Shanghai Tianshi will mainly provide the Export Agency Services for the production plant in Suez of Egypt. Therefore the demand of Export Agency Services by Shanghai Tianshi was increased for the year ended 31 December 2017 accordingly.

- (b) In respect of the targeted growth of the sales of the product and the expected international freight fee, we have obtained and reviewed the targeted sales for the years ending 31 December 2018 to 2020 prepared by the Management. It is expected that the growth of Export Agency Services by Shanghai Tianshi will be expected to increase by approximately 20% on a year-on-year basis from

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2018 to 2020. As discussed with the Management, the growth of Export Agency Services with Shanghai Tianshi is based on (i) the expected increase of international freight fee of approximately 5% on a year-to-year basis from 2018 to 2020; and (ii) the expected increase in sales volume of the Export Agency Services in the overseas regions primarily in Americas, Egypt and other regions. We have obtained and reviewed the international freight fee quotations of 2017 and 2018 from the independent third party export agents, the freight fee was adjusted upward by approximately 5% to 11% depending on the locations and destinations, therefore we considered that the use of the expected increase in international freight fee of approximately 5% is a conservative basis for the estimated targeted growth of sales. We also discussed with Management about the expected increase in sales volume of the overseas regions is estimated to be approximately 16% to 17% on a year-to-year basis from 2018 to 2020 which is due to larger demand from overseas customers and increase in the number of the overseas clients. The expected increase in the sales volume in overseas region is driven by the continuous development on the wind energy in the global world. According to the “Global Wind Statistics 2017” released by Global Wind Energy Council in February 2018, the world cumulative installed wind power capacity has increased from approximately 487.7 gigawatts in 2016 to approximately 539.6 gigawatts in 2017, representing the increase of approximately 10.6% of the world cumulative installed wind power capacity in 2017. Based on the market forecast on the wind energy sector by Global Wind Energy Council, the world cumulative installed wind power capacity will be further reached to approximately 741.7 gigawatts in 2020 and the forecast cumulative installed wind power capacity in Americas will be increased from approximately 10.3 gigawatts in 2018 to approximately 14.0 gigawatts in 2020. As discussed with the Management, the new production plant in the State of South Carolina of United States is expected to commence production in the first quarter of 2018 which can further capture the overseas market share especially in the region of North America, and Shanghai Tianshi will mainly provide the Export Agency Services for the production plant in Americas. Based on the above analysis and the commencement of new production plant in United States, it is estimated that the sales volume in Americas will become higher, and hence the demand for the Export Agency Services by Shanghai Tianshi for the overseas customers will be certainly increased. In light of the foregoing, we consider that the basis and the assumptions used in the targeted growth of the Export Agency Services by Shanghai Tianshi is fair and reasonable in determining the proposed annual caps.

- (c) In respect of the expected mix of the international and PRC orders of the Group, the expected delivery volume in tonnes of international and the PRC of the Group will be approximately 51% to 53% and approximately 47% to 49%, respectively, from 2018 to 2020. We have reviewed the historical delivery volume in tonnes from 2015 to 2017 to the Group in terms of geographical areas, the historical delivery volume in tonnes of international and PRC orders was approximately 49% to 53% and approximately 49% to 53%, respectively, which indicated that the expected mix of international and PRC orders



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estimated by the Management is align with the historical delivery volume record and together with the consideration of other factors of the targeted growth of the sales of the product and the expected international and PRC freight fee, therefore it is considered to be a fair and reasonable measures to derive the proposed annual caps.

- (d) In respect of the expected proportion of the Export Agency Services to be provided by Shanghai Tianshi, the expected proportion of the amount to be spent on the procurement of Export Agency Services from Shanghai Tianshi in estimated total amount to be spent on the procurement of the Logistic Services and the Export Agency Services from all selected logistics agents and export agents prepared by the Management are approximately 34.8%, 34.4% and 34.0% for the three years ended 31 December 2018, 2019 and 2020, respectively, which indicates that the expected proportion of Export Agency Services provided by Shanghai Tianshi to the total estimated amount to be spent on the Logistics Services and Export Agency Services will be in a gradually decreasing trend. Therefore it is considered to be a fair and reasonable measure to derive the proposed annual caps.

Taking into consideration of our findings as discussed at the above, we concur with the view of the Directors that the assumptions made and the factors used to determine the proposed annual caps of 2018 Shanghai Tianshi Framework Agreement and 2019-2020 Shanghai Tianshi Framework Agreement are fair and reasonable.

**C. *Aggregate proposed annual caps for 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions***

Pursuant to the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions, the proposed aggregated annual caps for the years ending 31 December 2018, 2019 and 2020 are set out as below:

	<b>For the year ended 31 December 2018 RMB'000</b>	<b>For the year ended 31 December 2019 RMB'000</b>	<b>For the year ended 31 December 2020 RMB'000</b>
Proposed aggregated annual cap	102,321	123,495	148,475

As one or more of the applicable percentage ratios calculated based on the proposed aggregated annual caps in respect 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 reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### **B. OTHER INTERNAL CONTROL PROCEDURE**

We were given to understand from the Management that the Group has implemented the following measures to enter that (i) the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions are on normal commercial terms and no less favorable to the Group as compared to that offered by independent third parties; and (ii) the annual aggregate transaction amounts will not exceed the annual caps of the respective years:

- (a) the Group will conduct a competitive tender process at the beginning of each year for the selection of logistics agent and export agent for the Continuing Connected Transactions and obtained at least three quotations from independent third party logistics agents and exports agents with assessment on a number of factors including prices, service levels, geographical location, scale of operation and reputation, such that the Continuing Connected Transactions are on normal commercial terms and no less favorable to the Group as compared to that offered by independent third parties;
- (b) the finance department of the Company will prepare monthly management report to closely monitor the transactions conducted for the 2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions to ensure aggregate transaction amounts will not exceed the relevant annual caps;
- (c) the independent non-executive Directors Company will perform an annual review pursuant to Rule 14A.55 of the Listing Rules and confirm in the annual report of the Company that the Continuing Connected Transactions are conducted (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant framework agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and
- (d) the Company's auditors will also provide a letter to the Board pursuant to Rule 14A.56 of the Listing Rules confirming that the Continuing Connected Transactions (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Group; (iii) have been entered into in accordance with the relevant framework agreements; and (iv) have not exceeded their respective proposed annual caps.

We have obtained and reviewed supporting documents in connection with the abovementioned internal control measures where appropriate and the annual reports of the Company for the two financial years ended 31 December 2016 and noted that both the independent non-executive Directors and auditors of the Company, have confirmed that the continuing connected transactions are in accordance with the requirements set out above for the two years ended 31 December 2016.

Based on the above internal control procedures, we consider that there are adequate measures in place to ensure that the Continuing Connected Transactions will be entered into in accordance with the policy of the Group and in normal commercial terms which will not be prejudicial to the interest of the Company and its Shareholders.

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### OPINION AND RECOMMENDATION

Having considered the factors and reasons as mentioned above, we consider that the terms and conditions of the relevant framework agreements of the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions are on normal commercial terms and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group. Further, we are of the view that the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions and the respective proposed annual caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the ordinary resolutions to be proposed at the AGM to approve the 2018 Continuing Connected Transactions and 2019-2020 Continuing Connected Transactions and the transactions contemplated thereunder.

Yours faithfully,  
for and on behalf of  
**Titan Financial Services Limited**  
**Arthur Kan**  
*Executive Director*

*Mr. Arthur Kan is a licensed person under the SFO to engage in type 6 (advising on corporate finance) regulated activities. He has over 16 years of experience in corporate finance.*

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## APPENDIX I      DETAILS OF DIRECTORS PROPOSED FOR RE-ELECTION

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*The following are the particulars of the Directors who will, being eligible, offer themselves for re-election at the Annual General Meeting pursuant to the Articles of Association.*

As at the Latest Practicable Date, each of the following Directors, save as disclosed herein, did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, none of the following Directors holds any other position within the Company or any other member of the Group, nor has any directorships in other listed companies in Hong Kong or overseas in the past three years and nor has other major appointments and professional qualifications.

Save as disclosed therein, none of the following Directors has any relationship with any other Directors, senior management, substantial Shareholders or controlling shareholders of the Company.

Save as disclosed herein, there is no other information relating to the following Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matter which needs to be brought to the attention of the Shareholders in respect of the re-election of the following Directors.

### **DIRECTORS CANDIDATES:**

#### **Independent Non-executive Directors**

**Mr. XIE Guoping** (謝國平先生) (“**Mr. Xie**”), born in 1982, is an independent non-executive Director, a member and chairman of the Audit Committee, a member and chairman of the Remuneration Committee and a member of the Nomination Committee with effect from 22 May 2017. Mr. Xie is primarily responsible for supervising and providing independent judgment to the Board. Mr. Xie is a senior financial media practitioner. He 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. Besides, Mr. Xie is a committee member of Zhejiang Youth Federation. He was granted an interview with Mr. Wen Jiabao, the then Prime Minister of the State Council of the PRC in Beijing, the PRC in March 2009. Mr. Xie graduated on the major of secretary (foreign) from Zhejiang University of Media and Communication in Hangzhou, the PRC in July 2006. For the time being, 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.

Mr. Xie has entered into a letter of appointment with the Company and his term of appointment has commenced on 22 May 2017. Subject to the approval of his appointment at the Annual General Meeting, Mr. Xie’s term may be extended for such period as the Company and Mr. Xie may agree and may be terminated by either party by giving at least one month’s written notice. Mr. Xie is subject to retirement by rotation and re-election at the annual general meetings at least once every three years in accordance with the Articles of Association. He is entitled to receive a Director’s fee of RMB120,000 per annum as determined by the Board with reference to the prevailing market conditions and his responsibility in the Company. Mr. Xie will not be entitled to any bonus payment.

As at the Latest Practicable Date, Mr. Xie did not have any interest in the Shares which is required to be disclosed under Part XV of the SFO.

**Mr. Lou Hetong** (婁賀統先生) (“**Mr. Lou**”), born in 1956, was appointed as the independent non-executive Director, a member of the Audit Committee and a member of the Remuneration Committee on 6 March 2018. Mr. Lou is primarily responsible for supervising and providing independent judgment to the Board.

Mr. Lou is an associate professor at Fudan University (復旦大學) and a non-practicing member of the Chinese Institute of Certified Public Accountants. Since 1984, Mr. Lou has been teaching in Accounting Department of Fudan University and now serves as executive director of Master of Professional Accounting Program of Fudan University. Mr. Lou has been an external director of Shanghai Lilong New Media Co., Ltd. (上海利隆新媒體股份有限公司) since 2013, an independent director of Shanghai Longyun Advertising Communication Co., Ltd. (上海龍韻廣告傳播股份有限公司) (stock code: 603729), a company listed on the Shanghai Stock Exchange since November 2014, an independent director of Suzhou Neway Valve Co., Ltd. (蘇州紐威閥門股份有限公司) (stock code: 603699), a company listed on the Shanghai Stock Exchange since January 2016, an independent director of WuXi AppTec Co. Ltd. (無錫藥明康德新藥開發股份有限公司) since 2017 and an independent director of Dalian Chenxin Network Technology Co., Ltd. (大連晨鑫網絡科技股份有限公司) (previously known as Dalian Yi Qiao Sea Cucumber Co., Ltd. (大連壹橋海參股份有限公司) (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 (上海財經大學) in Shanghai, the PRC in July 1984 and a doctoral degree in accounting from Fudan University in Shanghai, the PRC in May 2007.

Mr. Lou has entered into a letter of appointment with the Company on 6 March 2018 and his term of appointment has commenced on 6 March 2018 until the date of the Annual General Meeting and shall then be eligible for re-re-election. If Mr. Lou’s appointment is approved at the Annual General Meeting, his term may be extended for such period as the Company and Mr. Lou may agree and may be terminated by either party by giving at least one month’s written notice. Mr. Lou is subject to retirement by rotation and re-election at the annual general meetings at least once every three years in accordance with the Articles of Association. The emoluments of Mr. Lou will be determined by the Board with reference to various factors such as duties and level of responsibilities of Mr. Lou, the available information in respect of companies of comparable business or scale, and the prevailing market conditions. Mr. Lou will not be entitled to any bonus payment.

As at the Latest Practicable Date, Mr. Lou did not have any interest in the Shares which is required to be disclosed under Part XV of the SFO.

**Mr. Zhao Jun** (趙軍先生) (“**Mr. Zhao**”), born in 1954, was appointed as the independent non-executive Director and a member of the Nomination Committee on 6 March 2018. Mr. Zhao 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. (巨石集團) since 2001 and the supervisor of China Jushi Co., Ltd. (中國巨石股份有限公司) (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 (北京玻璃鋼設計研究院) in 1970 and acted as director of Housing and Construction Materials Department in the State Building and Construction Bureau Information Institute (國家建築局情報所) in 1983. Mr. Zhao joined China Building Waterproofing Materials Company (中國建築防水材料公司) in 1995 and has successively served as Deputy Secretary General of China Building Waterproofing Materials

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## APPENDIX I      DETAILS OF DIRECTORS PROPOSED FOR RE-ELECTION

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Association (中國建築防水材料協會), the member of Expert Committee of China Building Waterproofing Materials Association and the member of National Chemical Building Materials Expert Committee. The research of modified asphalt waterproof material conducted by Mr. Zhao won the third prize of scientific and technological progress of State Building Materials Bureau. Mr. Zhao graduated from Xi'an Foreign Studies University (西安外國語大學) in Xi'an, the PRC, in 1979.

Mr. Zhao has entered into a letter of appointment with the Company on 6 March 2018 and his term of appointment has commenced on 6 March 2018 until the date of the Annual General Meeting and shall then be eligible for re-re-election. If Mr. Zhao's appointment is approved at the Annual General Meeting, his term may be extended for such period as the Company and Mr. Zhao may agree and may be terminated by either party by giving at least one month's written notice. Mr. Zhao is subject to retirement by rotation and re-election at the annual general meetings at least once every three years in accordance with the Articles of Association. The emoluments of Mr. Zhao will be determined by the Board with reference to various factors such as duties and level of responsibilities of Mr. Zhao, the available information in respect of companies of comparable business or scale, and the prevailing market conditions. Mr. Zhao will not be entitled to any bonus payment.

As at the Latest Practicable Date, Mr. Zhao did not have any interest in the Shares which is required to be disclosed under Part XV of the SFO.

*This appendix serves as an explanatory statement, as required by the Listing Rules, to provide the Shareholders with all the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the ordinary resolution to approve the Repurchase Mandate.*

### **NUMBER OF ISSUED SHARES**

As at the Latest Practicable Date, the number of the issued Shares was 1,000,000,000 Shares with nominal value of US\$0.001 each. Subject to the passing of the resolution granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased before the Annual General Meeting, the Company will be allowed under the Repurchase Mandate to repurchase up to a maximum of 100,000,000 Shares, representing 10% of the number of issued Shares as at the Latest Practicable Date during the period ending on the earlier of (i) the conclusion of the next annual general meeting of the Company; or (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the Articles of Association to be held; or (iii) the date on which such authority is revoked or varied by an ordinary resolution of the Shareholders in annual general meeting of the Company.

### **REASONS FOR REPURCHASES**

The Directors believe that the Repurchase Mandate is in the best interests of the Company and the Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per Share and will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders.

### **FUNDING OF REPURCHASES**

Any repurchase of Shares by the Company will only be paid out of funds legally available for such purpose in accordance with the Articles of Association and the applicable laws and regulations of the Cayman Islands and the Listing Rules. The Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

There may be a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in the audited financial statements of the Company for the year ended 31 December 2017 in the event that the Repurchase Mandate is to be exercised in full at any time during the repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstance, have an adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

### **UNDERTAKING OF THE DIRECTORS**

To the best of their knowledge, having made all reasonable enquiries, none of the Directors nor any of their close associates (as defined under the Listing Rules) have any present intention to sell any Shares to the Company, if the Repurchase Mandate is approved by the Shareholders.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

**CONNECTED PERSONS**

No core connected person (as defined under the Listing Rules) has notified the Company that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders and exercised by the Board.

**EFFECT OF TAKEOVERS CODE**

If on exercise of the Company's powers to repurchase Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, to the best knowledge and belief of the Company, the following Shareholders were directly or indirectly interested in 10% or more of the nominal value of the issued Shares that carry a right to vote in all circumstances at general meetings of the Company:

<b>Shareholder</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
Huachen Investment Limited <sup>(1)</sup>	329,602,500	32.96%
Huakai Investment Limited <sup>(2)</sup>	131,015,500	13.10%
Trade Power Investments Limited <sup>(3)</sup>	225,000,000	22.50%

*Notes:*

- (1) Huachen Investment Limited directly held 329,602,500 Shares while Mr. Zhang Yuqiang directly held 95.95% issued share capital of Huachen Investment Limited and under the SFO, Mr. Zhang Yuqiang was deemed to be interested in the 329,602,500 Shares held by Huachen Investment Limited.
- (2) Huakai Investment Limited directly held 131,015,500 Shares while Mr. Zhang Jiankan directly held all issued share capital of Huakai Investment Limited and under the SFO, Mr. Zhang Jiankan was deemed to be interested in the 131,015,500 Shares held by Huakai Investment Limited.
- (3) Soar City Investments Limited directly held all issued share capital of Trade Power Investments Limited and was deemed to be interested in the 225,000,000 Shares held by Trade Power Investments Limited. Mr. Tang Hsin-hua indirectly held all issued share capital of Trade Power Investments Limited through all direct interests he held in Soar City Investments Limited and under the SFO, Mr. Tang Hsin-hua was deemed to be interested in the 225,000,000 Shares held by Trade Power Investments Limited.

In the event that the Directors exercise in full the power to repurchase Shares under the Repurchase Mandate, and assuming the interests of Huachen Investment Limited, Huakai Investment Limited and Trade Power Investments Limited in Shares as mentioned above remain unchanged, the interests of Huachen Investment Limited, Huakai Investment Limited and Trade Power Investments Limited in the Shares will respectively increase to approximately 36.62%, 14.56% and 25%. The increase of Huachen Investment Limited's interests in the Shares would give rise to an obligation to make a mandatory offer under the Takeovers Code. However, the increase in Huakai Investment Limited's and Trade Power Investments Limited's interests in the Shares would not give rise to an obligation to make a mandatory



offer under the Takeovers Code. Saved as aforesaid, as at the Latest Practicable Date, the Directors are not aware of any consequence which may arise under the Takeovers Code even if the Repurchase Mandate was exercised in full. Nevertheless, the Directors do not intend to exercise the Repurchase Mandate to such extent as would, in the circumstances, trigger any potential consequence under the Takeovers Code.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than 25% of the Shares then in issue shall be conditional on the approval of the Stock Exchange to waive the Listing Rules requirements regarding public shareholding. It is believed that a waiver of this provision would not normally be granted other than in certain exceptional circumstances.

#### SHARE REPURCHASE MADE BY THE COMPANY

The Company had not repurchased any Shares (whether on the Stock Exchange or otherwise) in the past six months immediately preceding the Latest Practicable Date.

#### SHARE PRICES

The highest and lowest market prices at which the Shares have been traded on the Stock Exchange in the past twelve months prior to the Latest Practicable Date were as follows:

<b>Month</b>	<b>Highest prices</b> <i>HK\$</i>	<b>Lowest prices</b> <i>HK\$</i>
<b>2017</b>		
March	2.95	2.59
April	2.96	2.70
May	3.00	2.72
June	3.15	2.40
July	2.77	2.65
August	2.75	2.39
September	2.55	2.30
October	2.54	2.13
November	2.55	2.16
December	2.48	2.25
<b>2018</b>		
January	2.43	2.21
February	2.29	2.20
March	2.34	2.15
April (up to the Latest Practicable Date)	2.16	2.15

**RESPONSIBILITY STATEMENT**

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

**INFORMATION ABOUT THE COMPANY'S DIRECTORS AND SENIOR MANAGEMENT****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 February 2015 and is primarily responsible for formulating the overall development strategies and business plans of the Group. Mr. ZHANG Yuqiang is a director of Huachen Investment Limited which directly held 329,602,500 Shares as at the Latest Practicable Date. Mr. ZHANG Yuqiang is also the chairman of the board of directors of 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. From August 1971 to June 1989, Mr. ZHANG Yuqiang had worked as a staff worker, workshop manager, chief of the production unit, vice director and director of Tongxiang Fiberglass Factory. Mr. ZHANG Yuqiang founded Tongxiang Zhenshi Company Ltd., the predecessor of Zhenshi in June 1989 and has been acting as the chairman ever since. Mr. ZHANG Yuqiang founded Jushi Group in March 1993 and has been acting as the chairman ever since. Since March 1999, Mr. ZHANG Yuqiang has been acting as the vice chairman, general manager and chief executive officer of China Jushi, previously known as China Fiberglass Co., Ltd. and China Chemical Building Materials Company Ltd.. Mr. ZHANG Yuqiang has over 40 years working experience in the fiberglass industry. Under the guidance of Mr. ZHANG Yuqiang, Jushi Group has become one of the largest production entities in the world. Mr. ZHANG Yuqiang obtained the qualification certificate of senior engineer (professor level) conferred by China National Building Material Company 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. In 2009, Mr. ZHANG Yuqiang was voted by Forbes as the best chief executive officer of listed companies in the PRC. Mr. ZHANG Yuqiang participated the MBA courses held by Zhejiang University of Technology and received a programme certificate in December 2002. Mr. ZHANG Yuqiang's residential address is No. 12 Xueqian Road, Wutong Street, Tongxiang, Zhejiang Province, the PRC. 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 the Director in February 2015 and participates in formulating the strategic development plans of the Group. Mr. ZHANG Jiankan is a director of Huakai Investment Limited which directly held 131,015,500 Shares as at the Latest Practicable Date. Mr. ZHANG Jiankan has also been the chairman of the board of directors of Zhejiang Hengshi Fiberglass Fabrics Co., Ltd. (“**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 had acted as 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’s residential address is No. 12 Xueqian Road, Wutong Street, Tongxiang, Zhejiang Province, the PRC. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang, another non-executive Director.

**TANG Hsin-hua** (唐興華) (“**Mr. TANG**”), born in 1953, is a non-executive Director. Mr. TANG was appointed as the Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. TANG is a director of Trade Power Investments Limited which directly held 225,000,000 Shares as at the Latest Practicable Date. Mr. TANG is also the chairman of the board of directors of Jushi USA Fiberglass Co., Ltd. and the supervisor of China Jushi. Mr. TANG has also been a director of Hengshi Fiberglass since January 2004. From 1996 to 2003, Mr. TANG had acted as the chief executive officer of United Suntech Craft Inc. From 1995 to 2010, Mr. TANG had 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. Mr. TANG’s residential address is 10th Floor, Building No. 1, No. 195 Guangfu North Road, 31 Lin, Dongrongli, Songshan District, Taipei, Taiwan.

**WANG Yuan** (王源) (“**Mr. WANG**”), born in 1978, is a non-executive Director. Mr. WANG was appointed as the Director in May 2015 and participates in formulating the strategic development plans of the Group. Mr. WANG has also been the chairman of the board of directors of Zhenshi Holding Group Co., Ltd.’s Indonesian branch since 2011 and the vice president of Zhenshi since 2010. From May 2001 to August 2003, Mr. WANG had worked as the project manager at Beijing Hollyhigh International Capital Consulting Co., Ltd.. From September 2003 to August 2007, Mr. WANG had acted as deputy minister in the strategic investment department of Jushi Group. From 2007 to 2009, Mr. WANG had 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 University of International Business and Economics (中國北京對外經濟貿易大學), in Beijing, the PRC, in June 2007. Mr. WANG’s residential address is Suite 109, Building No. 3, Xinyuan, Baixia District, Nanjing, Jiangsu Province, the PRC.

**EXECUTIVE DIRECTORS**

**ZHOU Tingcai (周廷才) (“Mr. ZHOU”)**, born in 1966, is an executive Director and the general manager of the Group. Mr. ZHOU was appointed as the Director in May 2015 and the general manager of the Group in November 2014 and is primarily responsible for 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 had 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 had received training and held different positions in various departments of Saint-Gobain China. From February 2008 to July 2008, Mr. ZHOU had 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 had acted as deputy general manager and general manager of Kunshan Huafeng Composite Material Co., Ltd. (昆山華風複合材料有限公司). Mr. ZHOU joined Kunshan Huafeng Wind-Power Engineering Co., Ltd. (昆山華風風電科技有限公司) as deputy general manager and general manager responsible for developing and managing industrial chain from April 2010 to November 2014. Mr. ZHOU obtained a bachelor’s degree in material engineering from Wuhan University of Technology (中國武漢工業大學) in Wuhan, the PRC, in June 1989. Mr. ZHOU’s residential address is Room 303, Unit 1, Block 19, 2nd Area, Cuiyuan New Village, Xihu District, Hangzhou, Zhejiang Province, the PRC.

**HUANG Junjun (黃鈞筠) (“Ms. HUANG”)**, born in 1980, is an executive Director and the deputy general manager of the Group. Ms. HUANG was appointed as the Director in May 2015. 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 had worked as a president office staff of Jushi Group. From 2004 to 2006, Ms. HUANG had been 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 had worked as a marketing specialist in Jushi Group. From 2010 to 2013, in addition to her responsibilities at Hengshi Fiberglass, Ms. HUANG had also been 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. Ms. HUANG’s residential address is Suite 601, Unit 2, Block 2, Qinyuan, Liuying Garden, Fuxing South Road, Wutong Street, Tongxiang, Zhejiang Province, the PRC.

**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 the 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 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. Mr. XIE’s residential address is No. 335 Tiyu Chang Road, Xiacheng District, Hangzhou, Zhejiang Province, the PRC.

**ZHAO Jun (趙軍) (“Mr. ZHAO”)**, born in 1954, is an independent non-executive Director. Mr. ZHAO was appointed as the 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 since 2001 and the supervisor of China Jushi, since November 2014. Mr. ZHAO joined the Beijing Fiber Reinforced Plastics Design and Research Institute in 1970 and acted as director of 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 Deputy Secretary General of China Building Waterproofing Materials Association, the member of Expert Committee of China Building Waterproofing Materials Association and the member of National Chemical Building Materials Expert Committee. The research of modified asphalt waterproof material conducted by Mr. ZHAO won the third prize of scientific and technological progress of State Building Materials Bureau. Mr. ZHAO graduated from Xi’an Foreign Studies University in Xi’an, the PRC, in 1979. Mr. ZHAO’s residential address is No. 11 Xiaofangjia Hutong, Dongcheng Qu, Beijing, the PRC.

**LOU Hetong (婁賀統) (“Mr. LOU”)**, born in 1962, is an independent non-executive Director. Mr. LOU was appointed as the 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 Accounting Department of Fudan University and now serves as executive director of Master of Professional Accounting Program of Fudan University. Mr. LOU has been an external director of Shanghai Lilong New Media Co., Ltd. since 2013, an independent director of Shanghai Longyun Advertising Communication Co., Ltd. (stock code: 603729), a company listed on the Shanghai Stock Exchange, since November 2014, an independent director of Suzhou Neway Valve Co., Ltd. (stock code: 603699), a company listed on the Shanghai Stock Exchange, since January 2016, an independent director of WuXi AppTec Co. Ltd. since 2017 and 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. Mr. LOU’s residential address is Room 603, No. 5 East Tiyyuhui Road 408 Long, Hongkou, Shanghai, the PRC.

## SENIOR MANAGEMENT

**PAN Chunhong (潘春紅) (“Mr. PAN”)**, born in 1973, is the executive general manager of the Group. Mr. PAN was appointed as the executive general manager in January 2016 and is responsible for production and quality management of the Group. From July 1999 to January 2001, Mr. PAN had 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 had worked as a deputy minister of quality control department in Jushi Group. From January 2007 to April 2008, Mr. PAN had worked as a vice director of secondary branch factory of the Jushi Group. From April 2008 to December 2015, Mr. PAN had worked as the factory manager of the secondary branch factory of the 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. Mr. PAN’s business address is No. 1 Guang Yun South Road, Tongxiang Economic Development Zone, Tongxiang, Zhejiang Province, 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 financial affairs relating to our Group since 2010. From 1997 to 2006, Mr. RAO had worked as an accountant and the chief financial officer of Tongxiang Gaoke Electricity Co., Ltd., a former subsidiary of Zhenshi (振石前附屬公司桐鄉高科電子有限公司). From 2006 to 2008, Mr. RAO had acted as the chief financial officer of Shenzhen Yuanshi Rubber Electricity Co., Ltd., a former subsidiary of Zhenshi (振石前附屬公司深圳源石塑料電子有限公司). From 2008 to 2010, Mr. RAO had acted as the group accountant of Zhenshi. Mr. RAO obtained a bachelor degree in accounting from Hangzhou Dianzi Industrial College (中國杭州杭州電子工業學院), in Hangzhou, the PRC, in July 1997. Mr. RAO’s business address is No. 1 Guang Yun South Road, Tongxiang Economic Development Zone, Tongxiang, Zhejiang Province, the PRC.

As at the Latest Practicable Date, each of the above Directors and senior management of the Company, save as disclosed herein, did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, none of the above Directors and senior management of the Company holds any other position within the Company or any other member of the Group, nor has any directorships in other listed companies in Hong Kong or overseas in the past three years and nor has other major appointments and professional qualifications.

Save as disclosed therein, none of the above Directors and senior management of the Company has any relationship with any other Directors, senior management, substantial Shareholders or controlling shareholders of the Company.

Save as disclosed herein, there is no other information relating to the above Directors and senior management of the Company that is required to be disclosed pursuant to paragraph 34 of Appendix 1, Part B of the Listing Rules and there is no other matter which needs to be brought to the attention of the Shareholders.

## **DISCLOSURE OF INTERESTS**

### **INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES OF THE COMPANY IN SHARES, UNDERLYING SHARES OR DEBENTURES**

As at the Latest Practicable Date, 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 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 or short positions which were taken or deemed to have under such provisions of SFO); or (b) recorded in the register maintained by the Company pursuant to the 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 the Listing Rules were as follows:

(i) **Interests in the Company**

<b>Directors</b>	<b>Nature of Interests</b>	<b>Number of Shares held<sup>(4)</sup></b>	<b>Approximate percentage of shareholding<sup>(5)</sup></b>
Zhang Yuqiang <sup>(1)</sup>	Interest of a controlled corporation	329,602,500 (L)	32.96%
Zhang Jiankan <sup>(2)</sup>	Interest of a controlled corporation	131,015,500 (L)	13.10%
Tang Hsin-hua <sup>(3)</sup>	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 held by Huachen Investment Limited under the SFO. Mr. Zhang Yuqiang is a non-executive Director and chairman of the Board.
- (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 held by Huakai Investment Limited under the SFO. Mr. Zhang Jiankan is a non-executive Director.
- (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 held by Trade Power Investments Limited under SFO. Mr. Tang Hin-hua is a non-executive Director.
- (4) The letter (L) denotes long position in such securities.
- (5) As at the Latest Practicable Date, 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 the Latest Practicable Date, none of the Directors or chief executives of the Company had 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 (including the interests or short positions which were taken or deemed to have under such provisions of SFO); or (b) recorded in the register maintained by the Company pursuant to the 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 the Latest Practicable Date, so far as the Directors are aware, the persons (not being a Director or chief executive of the Company) who had or were deemed to have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group were as follows:

Name	Nature of Interests	Number of Share <sup>(5)</sup>	Approximate percentage of Shareholding <sup>(6)</sup>
Mr. Fang Yan Zau Alexander <sup>(1)</sup>	Interest of a controlled corporation	75,000,000 (L)	7.50%
Huachen Investment Limited <sup>(2)</sup>	Beneficial owner	329,602,500 (L)	32.96%
Huakai Investment Limited <sup>(3)</sup>	Beneficial owner	131,015,500 (L)	13.10%
Soar City Investments Limited <sup>(4)</sup>	Interest of a controlled corporation	225,000,000 (L)	22.50%
Trade Power Investments Limited <sup>(4)</sup>	Beneficial owner	225,000,000 (L)	22.50%
Top Way Alliance Limited <sup>(1)</sup>	Interest of a controlled corporation	75,000,000 (L)	7.50%
Joyfar Limited <sup>(1)</sup>	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 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 held by Joyfar Limited under the SFO.
- (2) Huachen Investment Limited directly held 329,602,500 Shares, 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 held by Huachen Investment Limited under the SFO.
- (3) Huakai Investment Limited directly held 131,015,500 Shares, 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 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 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) The letter (L) denotes long position in such securities.
- (6) As at the Latest Practicable Date, the number of issued Shares amounted to 1,000,000,000 Shares.



Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who had, or was deemed to have, interests or short positions in the Shares, underlying Shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

#### EXPERT QUALIFICATION AND CONSENT

<b>Name</b>	<b>Qualification</b>
Titan Financial Service Limited	a corporation licensed to carry out Type 1 (dealing in securities), and Type 6 (advising on corporate finance) of the regulated activities under the SFO

As at the Latest Practicable Date, Titan Financial has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its statements, letter, report and opinion (as the case may be) as set out in this circular and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, Titan Financial was not beneficially interested in the share capital of any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the Group.

As at the Latest Practicable Date, Titan Financial did not have any direct or indirect interest in any assets which have been, since 31 December 2016, the date of the latest published audited accounts of the Group, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

The letter from Titan Financial dated 11 April 2018 is set out on pages 32 to 57 for incorporation herein.

#### MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited accounts of the Group were made up.

#### LITIGATION AND CLAIMS

As at the Latest Practicable Date, none of member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

#### COMPETING INTERESTS AND OTHER INTERESTS

As at the Latest Practicable Date, save as disclosed herein, so far as the Directors were aware,

- (i) none of the Directors or their respective associates had any interests which competes or is likely to compete, either directly or indirectly with the business of the Group or had any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules;

- (ii) none of the Directors or their associates was materially interested in any contract or arrangement entered into by the Group which was subsisting at the Latest Practicable Date and was significant in relation to the business of the Group; and
- (iii) none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2016, the date to which the latest published audited accounts of the Group was made up.

**SERVICE CONTRACTS OF THE DIRECTORS**

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

**GENERAL**

- (a) The registered head office of the Company is at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.
- (b) The principal share registrar and transfer office of the Company is Intertrust Corporate Services (Cayman) Limited at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.
- (c) The share registrar and transfer office of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The joint company secretaries of the Company are Mr. Yin Hang and Mr. Lui Chi Ho.
- (e) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours on any business day at the principal place of business of the Company in Hong Kong at 39/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong, from the date of this circular up to and including the date of the Annual General Meeting:

- (a) 2018 Yushi International Framework Agreement;
- (b) 2018 Shanghai Tianshi Framework Agreement;
- (c) 2019-2020 Yushi International Framework Agreement;
- (d) 2019-2020 Shanghai Tianshi Framework Agreement;

- (e) the letter from the Independent Board Committee, the text of which is set out on pages 30 to 31 in this circular;
- (f) the letter of advice from Titan Financial to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 32 to 57 in this circular;
- (g) the written consent of Titan Financial referred to in this appendix; and
- (h) this circular.

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## NOTICE OF ANNUAL GENERAL MEETING

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

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

**(Stock Code: 1197)**

### NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN THAT** the annual general meeting (the “**Annual General Meeting**”) of China Hengshi Foundation Company Limited (the “**Company**”) will be held at Inspirock Hotel, 199 Zhenxing East Road, Tongxiang, Zhejiang Province, the People’s Republic of China on 11 May 2018 at 3:00 p.m. for the following purposes:

1. To receive and adopt the audited consolidated financial statements and the reports of the directors and auditors of the Company for the year ended 31 December 2017.
2. To declare a final dividend for the year ended 31 December 2017.
3. (a) To re-elect the following directors of the Company (the “**Directors**”) who are standing for re-election at the Annual General Meeting:
  - i. Mr. Xie Guoping as an independent non-executive Director;
  - ii. Mr. Lou Hetong as an independent non-executive Director; and
  - iii. Mr. Zhao Jun as an independent non-executive Director.
- (b) To authorise the board of directors of the Company (the “**Board**”) to fix the remuneration of the Directors.
4. To re-appoint Deloitte Touche Tohmatsu as auditor of the Company for the year 2018 and to authorise the Board to fix their remuneration for the year ending 31 December 2018.
5. To consider and, if thought fit, pass (with or without modification) the following resolutions as ordinary resolutions:
  - (A) “**That:**
    - (i) subject to paragraph (iii) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and

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## NOTICE OF ANNUAL GENERAL MEETING

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deal with additional shares of the Company (the “**Shares**”), and to make or grant offers, agreements and options (including bonds, warrants and debentures exchangeable for or convertible into Shares) and rights of exchange or conversion, which would or might require the exercise of such powers subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

- (ii) the approval in paragraph (i) of this resolution shall be in addition to any other authorisation given to the Directors and shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, warrants and debentures exchangeable or convertible into Shares) and rights of exchange or conversion which may require the exercise of such power after the end of the Relevant Period;
- (iii) the aggregate number of the Shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) and issued by the Directors during the Relevant Period (as hereinafter defined) pursuant to paragraph (i) or (ii) of this resolution, otherwise than pursuant to:
  - (1) a Rights Issue (as hereinafter defined);
  - (2) the grant or exercise of any option under share option scheme of the Company (if applicable) or other option, scheme or similar arrangements for the time being adopted for the grant or issue to the Directors, officers and/or employees of the Company and/or any of its subsidiaries and/or other eligible participants specified thereunder of options to subscribe for Shares or rights to acquire Shares;
  - (3) any scrip dividend or similar arrangements providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company; or
  - (4) the terms of any existing convertible notes issued by the Company or any existing securities of the Company which carry rights to subscribe for or are convertible into Shares, shall not exceed the aggregate of:
    - (a) 20% of the total number of the Shares in issue as at the date of passing this resolution 5(A); and
    - (b) (if the Board is so authorised by resolution 5(C)) the number of the Shares repurchased by the Company subsequent to the passing of resolution 5(B) (up to a maximum equivalent to 10% of the total number of the issued Shares as at the date of passing resolution 5(B)),

and the said approval shall be limited accordingly; and

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## NOTICE OF ANNUAL GENERAL MEETING

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- (iv) for the purpose of this resolution:
  - (a) “**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:
    - (1) the conclusion of the next annual general meeting of the Company;
    - (2) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; or
    - (3) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting; and
  - (b) “**Rights Issue**” means an offer of Shares open for a period fixed by the Directors to holders of Shares whose names appear on the register of members on a fixed record date in proportion to their holdings of Shares as at that date (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or, having regard to any restrictions or obligations under the laws of, or the requirements of, or the requirements of, any jurisdiction or any recognised regulatory body or any stock exchange in any territory applicable to the Company).”
- (B) “**That:**
  - (i) subject to paragraph (ii) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase Shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or on any other stock exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange, be and is hereby generally and unconditionally approved;
  - (ii) the aggregate number of the Shares, which may be repurchased by the Company pursuant to the approval in paragraph (i) of this resolution above shall not exceed 10% of the aggregate number of the Shares in issue as at the date of passing of this resolution, and the said approval shall be limited accordingly;

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## NOTICE OF ANNUAL GENERAL MEETING

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(iii) for the purpose of this Resolution:

“**Relevant Period**” means the period from the passing of this resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; or
- (c) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting.”

(C) “**That** conditional upon resolutions 5(A) and 5(B) above being passed, the general mandate granted to the Directors to allot, issue and deal with additional shares and to make or grant offers, agreements, and options which might require the exercise of such powers pursuant to resolution 5(A) above be and is hereby extended by the additional thereto of an amount representing the aggregate number of the Shares of the Company repurchased by the Company under the authority granted pursuant to resolution 5(B) above, provided that such number of the Shares shall not exceed 10% of the aggregate number of the Shares in issue as at the date of passing the resolution.”

6. To consider and, if thought fit, pass (with or without modification) the following resolutions as ordinary resolutions:

“**That:**

- (i) the 2018 Continuing Connected Transactions (as defined in the circular of the Company dated 11 April 2018 (the “**Circular**”)), including the aggregate of proposed annual caps for the year ending 31 December 2018 being RMB102,321,000, and the transactions contemplated thereunder and the implementation thereof, be and are hereby approved, confirmed and ratified;
- (ii) the 2019-2020 Continuing Connected Transactions (as defined in the Circular), including the aggregate of proposed annual caps for the two years ending 31 December 2019 and 2020 being RMB123,495,000 and RMB148,475,000, respectively, and the transactions contemplated thereunder and the implementation thereof, be and are hereby approved, confirmed and ratified; and
- (iii) any one director of the Company (or any two directors of the Company or one director and the secretary of the Company, in the case of execution of documents under seal) be and is hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her to be incidental to, necessary to, ancillary to or in connection with the matters contemplated in the

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## NOTICE OF ANNUAL GENERAL MEETING

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2018 Continuing Connected Transactions and the 2019-2020 Continuing Connected Transactions and the transactions contemplated thereunder and the implementation thereof including the affixing of seal thereon.”

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

Hong Kong, 11 April 2018

<i>Registered office:</i>	<i>Principal place of business</i>	<i>Principal place of business</i>
190 Elgin Avenue	<i>and head office in the PRC:</i>	<i>in Hong Kong:</i>
George Town	No. 1 Guang Yun South Road	39/F, Gloucester Tower,
Grand Cayman KY1-9005	Tongxiang Economic	The Landmark,
Cayman Islands	Development Zone	15 Queen’s Road Central,
	Tongxiang, Zhejiang Province	Hong Kong
	PRC	

*Notes:*

- (i) A shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more person(s) as his/her proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.
- (ii) In the case of joint holders of any Share, any one of such persons may vote at the Annual General Meeting, either personally or by proxy, in respect of such Share as if he/she were solely entitled thereto. However, if more than one of such joint holders be present at the Annual General Meeting personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Share shall alone be entitled to vote in respect thereof.
- (iii) In order to be valid, a form of proxy must be completed, signed and returned to the Hong Kong share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof) not less than 48 hours before the time appointed for the holding of the meeting. The completion and return of the form of proxy shall not preclude the shareholders of the Company from attending and voting in person at the meeting, in which case, the proxy shall be deemed to be revoked.
- (iv) The register of members of the Company will be closed from Tuesday, 1 May 2018 to Friday, 11 May 2018, both days inclusive, to determine the entitlement of the shareholders of the Company to attend and vote at the Annual General Meeting, during which period no Share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 30 April 2018.
- (v) The register of members of the Company will be closed from Thursday, 17 May 2018 to Monday, 21 May 2018, to determine the entitlement of the shareholders of the Company to receive final dividend, during which period no Share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 16 May 2018.



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## NOTICE OF ANNUAL GENERAL MEETING

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*As at the date of this notice, 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

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## NOTICE OF ANNUAL GENERAL MEETING

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*As at the date of this notice, 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