
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this Scheme Document, the Scheme, or as to the action to be taken, you should consult a licensed securities dealer, or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold all your shares in China Hengshi Foundation Company Limited, you should at once hand this Scheme Document and the accompanying forms of proxy to the purchaser or to the licensed securities dealer or registered institution in securities or other agent through whom the sale was effected for transmission to the purchaser.

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**ZHENSHI GROUP (HK) HESHI
COMPOSITE MATERIALS CO., LIMITED**
振石集團(香港)和石複合材料有限公司

*(Incorporated under the laws of
Hong Kong with limited liability)*

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

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

**PROPOSED PRIVATISATION OF
CHINA HENGSHI FOUNDATION COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

Financial Adviser to the Offeror



華泰金融控股(香港)有限公司

HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Independent Financial Adviser to the Independent Board Committee



Gram Capital Limited

嘉林資本有限公司

Unless the context requires otherwise, capitalised terms used in this Scheme Document are defined under the section headed “Definitions” in Part I of this Scheme Document. A letter from the Board is set out in Part IV of this Scheme Document.

A letter from the Independent Board Committee, containing its advice to the Scheme Shareholders in relation to the Proposal, the Scheme and the special deal relating to the Rollover Arrangement is set out in Part V of this Scheme Document. A letter from Gram Capital, being the Independent Financial Adviser to the Independent Board Committee, containing its advice to the Independent Board Committee in relation to the Proposal, the Scheme and the special deal relating to the Rollover Arrangement is set out in Part VI of this Scheme Document. An Explanatory Memorandum regarding the Scheme is set out in Part VII of this Scheme Document.

The actions to be taken by the Shareholders are set out in the Part II of this Scheme Document.

Notices convening the Court Meeting and the EGM to be held on Tuesday, 18 June 2019 are set out in Appendix VI and Appendix VII respectively to this Scheme Document. Whether or not you are able to attend the Court Meeting and/or the EGM or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Company’s branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, as soon as possible but in any event not later than the respective times and dates as stated under “Part II — Actions to be taken” of this Scheme Document. If the pink form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it.

This Scheme Document is issued jointly by Heshi and the Company.

The English language text of this Scheme Document shall prevail over the Chinese language text.

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PART I — DEFINITIONS

In this Scheme Document, the following expressions have the meanings set out below unless the context requires otherwise:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“associates”	has the meaning ascribed to it in the Takeovers Code
“Authorisations”	necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals
“Beneficial Owner”	any beneficial owner of the Shares
“Board”	the board of directors of the Company
“Cancellation Price”	the cancellation price of HK\$2.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person admitted to participate in CCASS as a participant
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised of the Cayman Islands
“Company”	China Hengshi Foundation Company Limited (中國恒石基業有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of the Stock Exchange
“Conditions”	the conditions to the implementation of the Proposal and the Scheme as set out in the section headed “Conditions of the Proposal and the Scheme” of the Explanatory Memorandum
“Court Meeting”	a meeting of the Scheme Shareholders to be convened at the direction of the Grand Court at which the Scheme will be voted upon, which is to be held at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hung Hom, Kowloon, Hong Kong at 9:30 a.m. on Tuesday, 18 June 2019, notice of which is set out in Appendix VI of this Scheme Document, or any adjournment thereof

PART I — DEFINITIONS

“Disclosure Period”	the period beginning from the date which is six months prior to the Offer Period Commencement Date and ending with the Latest Practicable Date, both dates inclusive
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Grand Court, becomes effective in accordance with its terms and the Companies Law, being the date on which a copy of the court order of the Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Monday, 1 July 2019 (Cayman Islands time)
“EGM”	the extraordinary general meeting of the Company to be held at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong at 10:30 a.m. on Tuesday, 18 June 2019 (or so soon thereafter as the Court Meeting convened on the same day and place shall have been concluded or adjourned), notice of which is set out in Appendix VII of this Scheme Document, or any adjournment thereof
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate thereof
“Explanatory Memorandum”	the explanatory memorandum set out in Part VII of this Scheme Document and issued in compliance with the Rules of the Grand Court of the Cayman Islands 1995 (revised)
“Grand Court”	the Grand Court of the Cayman Islands
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huatai Financial”	Huatai Financial Holdings (Hong Kong) Limited (華泰金融控股(香港)有限公司), the financial adviser to the Offeror in connection with the Proposal. Huatai Financial is a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

PART I — DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company established by the Board to make a recommendation to the Scheme Shareholders in respect of, among others, the Proposal, the Scheme, the special deal relating to the Rollover Arrangement and voting in respect thereof
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Proposal, the Scheme and the special deal relating to the Rollover Arrangement
“Independent Shareholders”	the Shareholders other than the Offeror Concert Parties
“Investor Participant”	a person admitted to participate in CCASS as an investor participant
“Last Trading Day”	29 March 2019, being the last trading day prior to the date of halt of trading in the Shares on the Stock Exchange before the issuance of the announcement by the Company in relation to the Proposal
“Latest Practicable Date”	24 May 2019, being the latest practicable date prior to the printing of this Scheme Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	31 December 2019 or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct
“Meeting Record Date”	Tuesday, 18 June 2019, or such other time and date as shall have been announced to the Shareholders, being the record date for the purpose of determining the entitlement of Shareholders to attend and vote at the Court Meeting and the EGM
“Offer Period”	the period from 4 April 2019 (being the date on which the Company first announced the Proposal) to the Effective Date, both dates inclusive
“Offer Period Commencement Date”	4 April 2019, being the date of the issuance of the announcement by the Company in relation to the Proposal

PART I — DEFINITIONS

“Offeror” or “Heshi”	Zhenshi Group (HK) Heshi Composite Materials Co., Limited (振石集團(香港)和石複合材料有限公司), a company incorporated under the laws of Hong Kong, wholly owned by Zhenshi Holding
“Offeror Concert Parties”	parties acting in concert or presumed to be acting in concert with any of the Offeror under the definition of “acting in concert” under the Takeovers Code, including Huachen Investment Limited, Huakai Investment Limited and the Participating Shareholders
“Participating Shareholders”	Trade Power Investments Limited, Joyfar Limited and Mr. CAO Guorong
“Post-Scheme Shareholders”	the Shareholders immediately after the Scheme becomes effective, i.e. the Offeror, Huachen Investment Limited, Huakai Investment Limited and the Participating Shareholders
“PRC”	the People’s Republic of China, but for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region and Taiwan
“Proposal”	the proposal for the privatisation of the Company by the Offeror by way of the Scheme and the restoration of the share capital of the Company to the amount immediately before the cancellation of the Scheme Shares, on the terms and subject to the conditions set out in this Scheme Document
“Registered Owner”	any owner of the Shares (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) entered in the register of members of the Company
“Relevant Authorities”	appropriate governments and/or governmental bodies, regulatory bodies, courts or institutions
“Rollover Agreement”	the rollover agreement entered into between the Offeror and the Participating Shareholders on 3 April 2019
“Rollover Arrangement”	the arrangement between the Offeror and the Participating Shareholders under the Rollover Agreement
“Scheme”	a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of all the Scheme Shares

PART I — DEFINITIONS

“Scheme Document”	this composite document, including each of the letters, statements, appendices and notices in it, as may be amended or supplemented from time to time
“Scheme Record Date”	Monday, 1 July 2019, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
“Scheme Share(s)”	Share(s) other than those held by the Offeror Concert Parties
“Scheme Shareholder(s)”	Holders of Scheme Shares as at the Scheme Record Date
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of US\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers
“trading day”	a day on which the Stock Exchange is open for the business of dealings in securities
“Zhenshi Holding”	Zhenshi Holding Group Co., Ltd.* (振石控股集團有限公司), a company established under the laws of PRC

* *for identification purposes only*

The exchange rate adopted in this Scheme Document for illustration purpose only is HK\$1 = RMB0.856, being the exchange rate as quoted by the State Administration of Foreign Exchange on the Last Trading Day. Such conversion should not be construed as a representation that the currency could actually be converted into HK\$ at that rate or at all.

All references in this Scheme Document to times and dates are references to Hong Kong times and dates, except as otherwise specified and other than references to the expected date of the Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction and the Effective Date, which is the relevant date in the Cayman Islands. For reference only, Cayman Islands time is 13 hours behind Hong Kong time as at the date of this Scheme Document.

PART II — ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares. Subsequent purchasers of Scheme Shares will need to obtain a proxy form from the transferor.

Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 9:30 a.m. (Hong Kong time) on Sunday, 16 June 2019 or be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it, and the **white** form of proxy for use at the EGM should be lodged not later than 10:30 a.m. (Hong Kong time) on Sunday, 16 June 2019. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of the Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Scheme Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of Scheme Shareholders to attend and vote at the Court Meeting and Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Wednesday, 12 June 2019.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

PART II — ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of the Registered Owner.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

PART II — ACTIONS TO BE TAKEN

EXERCISE YOUR RIGHT TO VOTE

IF YOU ARE A SHAREHOLDER OR A BENEFICIAL OWNER, THE COMPANY AND THE OFFEROR STRONGLY ENCOURAGE YOU TO EXERCISE YOUR RIGHT TO VOTE OR GIVE INSTRUCTIONS TO THE RELEVANT REGISTERED OWNER TO VOTE IN PERSON OR BY PROXY AT THE COURT MEETING AND AT THE EGM. IF YOU KEEP ANY SHARES IN A SHARE LENDING PROGRAMME, WE URGE YOU TO RECALL ANY OUTSTANDING SHARES ON LOAN TO AVOID MARKET PARTICIPANTS USING BORROWED STOCK TO VOTE.

IF YOU ARE A BENEFICIAL OWNER WHOSE SHARES ARE DEPOSITED IN CCASS, WE ENCOURAGE YOU TO PROVIDE HKSCC WITH INSTRUCTIONS OR MAKE ARRANGEMENTS WITH HKSCC IN RELATION TO THE MANNER IN WHICH THOSE SHARES SHOULD BE VOTED AT THE COURT MEETING AND/OR THE EGM WITHOUT DELAY (AS DETAILED IN THE SECTION “ACTIONS TO BE TAKEN — ACTION TO BE TAKEN BY HOLDERS THROUGH TRUST OR CCASS” ABOVE).

IF YOU ARE A REGISTERED OWNER HOLDING SHARES ON BEHALF OF BENEFICIAL OWNERS, WE WOULD BE GRATEFUL IF YOU WOULD INFORM THE RELEVANT BENEFICIAL OWNERS ABOUT THE IMPORTANCE OF EXERCISING THEIR VOTE.

IF YOU ARE IN ANY DOUBT AS TO THE ACTION TO BE TAKEN, YOU ARE ENCOURAGED TO CONSULT YOUR LICENSED SECURITIES DEALER, BANK MANAGER, SOLICITOR, PROFESSIONAL ACCOUNTANT OR OTHER PROFESSIONAL ADVISER.

PART III — EXPECTED TIMETABLE

Hong Kong Time

Date of despatch of this Scheme Document	Monday, 27 May 2019
Latest time for lodging transfers of Shares in order to qualify for attending and voting at the Court Meeting and the EGM	4:30 p.m. on Wednesday, 12 June 2019
Register of members of the Company closed for determination of entitlements of Scheme Shareholders to attend and vote at the Court Meeting and of Shareholders to attend and vote at the EGM (<i>Note 1</i>)	from Thursday, 13 June 2019 to Tuesday, 18 June 2019 (both days inclusive)
Latest time for lodging forms of proxy in respect of Court Meeting (<i>Note 2</i>)	9:30 a.m. on Sunday, 16 June 2019 (or be handed directly to the Chairman at the Court Meeting)
Latest time for lodging forms of proxy in respect of EGM (<i>Note 2</i>)	10:30 a.m. on Sunday, 16 June 2019
Meeting Record Date	Tuesday, 18 June 2019
Court Meeting (<i>Note 3</i>)	9:30 a.m. on Tuesday, 18 June 2019
EGM (<i>Note 3</i>)	10:30 a.m. on Tuesday, 18 June 2019 (or immediately after the conclusion or adjournment of the Court Meeting)
Announcement of the results of the Court Meeting and the EGM	not later than 7:00 p.m. on Tuesday, 18 June 2019
Latest time for trading of the Shares on the Stock Exchange	Close of trading hours on Tuesday, 25 June 2019
Latest time for lodging transfers of Shares in order to qualify for entitlements under the Scheme	4:30 p.m. on Thursday, 27 June 2019
Register of members of the Company closed for determining entitlements to qualify under the Scheme (<i>Note 4</i>)	from Friday, 28 June 2019 onwards

PART III — EXPECTED TIMETABLE

Grand Court hearing of the petition to sanction the Scheme and to confirm the capital reduction	Friday, 28 June 2019 (Cayman Islands Time)
Announcement of the result of the court hearing to sanction the Scheme and to confirm the capital reduction	Monday, 1 July 2019
Scheme Record Date	Monday, 1 July 2019
Effective Date (<i>Note 5</i>)	Monday, 1 July 2019 (Cayman Islands Time)
Announcement of the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange	Tuesday, 2 July 2019
Expected withdrawal of the listing of Shares on the Stock Exchange becomes effective	4:00 p.m. on Wednesday, 3 July 2019
Latest time to despatch cheques for cash payment under the Scheme	on or before Wednesday, 10 July 2019

Shareholders should note that the above timetable is subject to change. Further announcement(s) will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and of the Shareholders to attend and vote at the EGM. This book closure period is not for determining entitlements under the Scheme.
- (2) Forms of proxy should be lodged with the office of the Company’s branch share registrar, Tricor Investor Services Limited as soon as possible and in any event no later than the times and dates stated above. If the **pink** form of proxy is not so lodged, it may also be handed to the chairman of the Court Meeting at the Court Meeting who shall have absolute discretion as to whether or not to accept it. In order to be valid, the **pink** form of proxy for the Court Meeting and the **white** form of proxy for the EGM must be lodged no later than the latest times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the EGM will not preclude a Scheme Shareholder and Shareholder, respectively, from attending the relevant meeting and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
- (3) The Court Meeting and the EGM will be held at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong at the times and dates specified above. Please see the notice of Court Meeting set out in Appendix VI of this Scheme Document and the notice of EGM set out in Appendix VII of this Scheme Document for details.
- (4) The register of members of the Company will be closed during such period for the purpose of determining Scheme Shareholders who are qualified for entitlements under the Scheme.
- (5) The Scheme shall become effective upon all the Conditions set out in the paragraph headed “4. Conditions of the Proposal and the Scheme” in the Explanatory Memorandum having been fulfilled or (to the extent permitted) waived (as the case may be).



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

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

Non-executive directors:

Mr. ZHANG Yuqiang (*Chairman*)
Mr. ZHANG Jiankan
Mr. TANG Hsin-hua
Mr. WANG Yuan

Executive directors:

Mr. YIN Hang
Ms. HUANG Junjun

Independent non-executive directors:

Mr. XIE Guoping
Mr. LOU Hetong
Mr. ZHAO Jun

Registered office:

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

Principal place of business in Hong Kong:

19th Floor, Three Exchange Square
8 Connaught Place, Central
Hong Kong

27 May 2019

To: The Shareholders

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF
CHINA HENGSHI FOUNDATION COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)**

INTRODUCTION

On 1 April 2019, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. The Offeror and the Company jointly announced the Proposal on 4 April 2019.

The purpose of this Scheme Document is to provide you with further information regarding the Proposal and the expected timetable and to give you notice of the Court Meeting and the EGM (together with proxy

PART IV — LETTER FROM THE BOARD

forms in relation thereto). Your attention is also drawn to the letter from the Independent Board Committee set out in Part V of this Scheme Document, the letter from Gram Capital, being the Independent Financial Adviser, set out in Part VI of this Scheme Document, the Explanatory Memorandum set out in Part VII of this Scheme Document and the terms of the Scheme set out in Appendix V to this Scheme Document.

TERMS OF THE PROPOSAL

The Scheme

Subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Memorandum, the Proposal will be implemented by way of the Scheme, pursuant to which the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares. Upon such reduction, the issued share capital of the Company will be increased to its former amount by the issuance at par to the Offeror of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. Upon the Scheme having become effective, the Offeror, namely Heshi, will hold approximately 20.55% of the issued share capital of the Company.

The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$2.50 in cash for each Scheme Share. The total consideration of approximately HK\$513.7 million payable for the Scheme Shares will be payable by the Offeror.

Assuming that the Scheme becomes effective on Monday, 1 July 2019, cheques for cash entitlements under the Scheme are expected to be despatched to the Scheme Shareholders by ordinary mail at their own risk on or before Wednesday, 10 July 2019.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

Comparison of Value and Financial Effects

Cancellation Price

The Cancellation Price of HK\$2.50 per Scheme Share represents:

- a premium of approximately 5.93% over the closing price of HK\$2.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 8.23% over the last trading price of HK\$2.31 per Shares immediately before the halt of trading in the shares of the Company with effect from 1:00 p.m. on 1 April 2019;
- a premium of approximately 10.62% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the Last Trading Day;

PART IV — LETTER FROM THE BOARD

- a premium of approximately 17.37% over the average closing price of approximately HK\$2.13 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 19.05% over the average closing price of approximately HK\$2.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 25.63% over the average closing price of approximately HK\$1.99 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 27.55% over the average closing price of approximately HK\$1.96 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- a premium of approximately 42.05% over the audited net assets value per Share attributable to the Shareholders of approximately RMB1.51 (equivalent to approximately HK\$1.76) as at 31 December 2018.

The Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

Dividends

The Company's ability to pay dividends is limited by Cayman Islands law, which allows a Cayman Islands company to declare and pay dividends only out of either profit or, subject to being able to pay its debts as they fall due in the ordinary course of business and to approval by way of an ordinary resolution of Shareholders, its share premium account. Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to dividend, if any, declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any).

On 29 March 2019, the Company announced a final dividend for the year ended 31 December 2018 at RMB0.08855 per Share which was approved by the Shareholders at the annual general meeting of the Company on 9 May 2019 and is expected to be distributed on 27 May 2019 to the Shareholders whose names appear on the register of members of the Company on 20 May 2019.

Save as disclosed as above, the Company does not expect to declare any dividend on or before the Effective Date.

PART IV — LETTER FROM THE BOARD

Total Consideration and Financial Resources

Based on the Cancellation Price of HK\$2.50, the amount of cash required to implement the Scheme would be approximately HK\$513.7 million.

The cash required for the Proposal is financed by the internal resources of the Offeror. Huatai Financial, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

REASONS FOR AND BENEFITS OF THE PROPOSAL

(a) To facilitate a shift in strategy towards transformation and long-term growth

The Company plans to implement a series of long-term transformation and growth strategies. The Offeror and Offeror Concert Parties are of the view that such growth strategies will better unleash the Company's potential in the long run. However, such strategies may affect the Company's short-term growth profile and result in the divergence between the Offeror's and the Company's view on the Company's long-term value on one hand, and investors' views on the Company's share price on the other hand. Following the implementation of the Proposal, the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

(b) Low liquidity of Shares may continue to cause abnormal share price fluctuation and difficulty for the Company to raise funds

The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 0.18 million Shares per day, representing only approximately 0.02% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

In addition, given the low liquidity of Shares, the directors of the Offeror believe that the Company's ability to raise funds from the public equity markets is currently limited and any significant improvement in the liquidity of the Shares in the foreseeable future is unlikely.

(c) A good opportunity for Scheme Shareholders to realise their investment for a premium

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at a premium to the market price. For reference purpose, the Cancellation Price of HK\$2.50 represents a premium of approximately 19.05% over the average closing price of the Shares for the 60 trading days up to and including the Last Trading Day, a premium of approximately 25.63% over the average closing price of Shares for the 120 trading days up to and including the Last Trading Day, or a premium of approximately 27.55% over the average closing price of Shares for the 180 trading days up to and including the Last Trading Day.

PART IV — LETTER FROM THE BOARD

(d) *Cost reduction from the saving of cost of listing and cost of investor relations*

The delisting of the Company would reduce the costs and management resources associated with the maintenance of the Company's listing status on the Stock Exchange, therefore the delisting of the Company is expected to result in a more efficient and cost-effective group structure and create more flexibility for the Group to manage its business in an efficient and sustainable manner.

SPECIAL DEAL RELATING TO ROLLOVER ARRANGEMENT

The Offeror would like to allow the Participating Shareholders to retain their shareholdings in the Company after the Scheme becomes effective. The Participating Shareholders in aggregate hold 33.39% of the issued share capital of the Company as at the Latest Practicable Date.

Trade Power Investments Limited is indirectly owned as to 100% by Mr. TANG Hsin-Hua, a non-executive director of the Company and the founder of the Company's business. Joyfar Limited, which is indirectly owned as to 100% by Mr. FANG Yan Zau Alexander, is a pre-IPO investor of the Company who has been holding Shares since prior to the initial public offering of the Company in 2015. Mr. TANG Hsin-hua and Mr. FANG Yan Zau Alexander have been long term business partners of Mr. ZHANG Yuqiang and Mr. ZHANG Jiankan. They have extensive operational expertise and in-depth understanding of Company's business, and share the same vision on the Company's long-term development strategy.

Mr. CAO Guorong is a deputy general manager of China Jushi Co., Ltd. and a vice president of its wholly-owned PRC subsidiary Jushi Group Co., Ltd. Zhenshi Holding, the parent company of the Offeror, owns 15.59% of the issued share capital of China Jushi Co., Ltd., and Mr. ZHANG Yuqiang also serves as the deputy chairman of the board of directors and the general manager of China Jushi Co., Ltd. Mr. CAO Guorong has been a long-term colleague of Mr. ZHANG Yuqiang, who has been working closely with each other. He has rich experience of business operation and deep understanding of the fiberglass industry, and shares the same view on Company's long-term development strategy.

The Offeror is of view that the Company can benefit from the commitment of the Participating Shareholders and it is important for the Company to retain the Participating Shareholders as Shareholders after the completion of the Scheme so that the Participating Shareholders will have incentives to continue to contribute to the future development and growth of the Group.

Rollover Agreement

The Offeror and the Participating Shareholders have entered into the Rollover Agreement, pursuant to which:

- (a) subject to, among others, the Independent Shareholders' approval as set out in the sub-section headed "Independent Shareholders' Approval" in the section headed "13. Special Deal Relating to Rollover Arrangement" in the Explanatory Memorandum, the Participating Shareholders will remain as Shareholders after the Scheme becomes effective and none of the Shares held by the Participating Shareholders will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;
- (b) each of the Participating Shareholders has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in

PART IV — LETTER FROM THE BOARD

relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that they shall be bound by, and take all actions necessary to implement the Scheme;

- (c) the Participating Shareholders have further undertaken that they shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by them, nor will they accept any other offer in respect of all or any of such Shares; and
- (d) the Participating Shareholders will remain on the register of members of the Company immediately after the Scheme becomes effective.

As the Rollover Agreement was only entered into by and between the Offeror and the Participating Shareholders and the Rollover Arrangement thereunder is not offered to all Shareholders, the Rollover Arrangement constitutes a special deal and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code and the approval by the Independent Shareholders.

Please see "13. Special Deal Relating to Rollover Arrangement" in the Explanatory Memorandum for further details.

CONDITIONS OF THE PROPOSAL AND THE SCHEME

Your attention is drawn to the section headed "4. Conditions of the Proposal and the Scheme" in the Explanatory Memorandum.

INDEPENDENT BOARD COMMITTEE

An Independent Board Committee, which comprises all the independent non-executive directors of the Company, namely Mr. XIE Guoping, Mr. LOU Hetong, and Mr. ZHAO Jun, has been established by the Board to make a recommendation to the Scheme Shareholders as to whether the terms of the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable and as to voting.

Although Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan, Mr. TANG Hsin-hua and Mr. WANG Yuan are non-executive directors of the Company, since:

- (1) each of Mr. ZHANG Yuqiang and Mr. ZHANG Jiankan holds as to 70.28% and 25.23% equity interest indirectly in the Offeror, respectively;
- (2) Mr. TANG Hsin-hua holds a 100% equity interest indirectly in Trade Power Investments Limited, which is a Participating Shareholder; and
- (3) Mr. WANG Yuan is a director and vice president of Zhenshi Holding, of which the Offeror is a wholly-owned subsidiary,

Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan, Mr. TANG Hsin-hua and Mr. WANG Yuan are regarded as being interested in the Proposal and therefore have not participated in any vote of the Board in relation to the Proposal and the Scheme and will not form part of the Independent Board Committee.

PART IV — LETTER FROM THE BOARD

The full text of the letter from the Independent Board Committee is set out in Part V of this Scheme Document.

INDEPENDENT FINANCIAL ADVISER

Gram Capital has been appointed as the Independent Financial Adviser (with the approval of the Independent Board Committee) to advise the Independent Board Committee in relation to the Proposal, the Scheme and the special deal relating to the Rollover Arrangement.

The full text of the letter from Gram Capital is set out in Part VI of this Scheme Document.

INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 21 December 2015. The Group is principally engaged in the design, manufacture and sale of fiberglass fabrics.

INFORMATION ON THE OFFEROR

The Offeror, Heshi, was incorporated in Hong Kong with limited liability on 12 June 2009. The principal activity of Heshi is international trading and investment holding.

The Offeror is wholly owned by Zhenshi Holding, a limited liability company established in the PRC since 1989 and with registered capital of RMB197 million. Zhenshi Holding's principal businesses span various industries, including composite materials production, trading and logistics, special steel production, mineral development, real estate development, hotel management, tourism, healthcare, education and culture, financial investments and so on.

Mr. ZHANG Yuqiang, the controlling shareholder of the Company, a non-executive director of the Company and the chairman of the Board, is also a director of the Offeror, the controlling shareholder, the chairman and founder of Zhenshi Holding. As at the Latest Practicable Date, Mr. ZHANG Yuqiang directly holds 70.28% equity interest in Zhenshi Holding. Mr. ZHANG Yuqiang is the father of Mr. ZHANG Jiankan.

Mr. ZHANG Jiankan, a non-executive director of the Company, is also a director of the Offeror, the director and the general manager of Zhenshi Holding. As at the Latest Practicable Date, Mr. ZHANG Jiankan indirectly holds 25.23% equity interest in Zhenshi Holding through Tongxiang Wushi Trading Co., Ltd.* (桐鄉務石貿易有限公司), a company established under the laws of PRC and wholly owned by him. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang.

Mr. ZHANG Zhiqiang, Mr. ZHOU Senlin and Mr. YANG Guoming, shareholders of Huachen Investment Limited (a company interested in 32.96% of the issued share capital of the Company) directly holds 2.03%, 1.80% and 0.66% equity interest in Zhenshi Holding, respectively. Mr. ZHANG Zhiqiang is Mr. ZHANG Yuqiang's younger brother. Mr. ZHOU Senlin is the younger brother of the wife of Mr. ZHANG Yuqiang. Mr. ZHOU Senlin is also a director and a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司). Mr. YANG Guoming is a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司) and the president of Jushi Group Co., Ltd. (巨石集團有限公司), and has no family tie with Mr. ZHANG Yuqiang.

PART IV — LETTER FROM THE BOARD

INTENTIONS OF THE OFFEROR AND THE COMPANY

Your attention is drawn to the section headed “14. Intentions of the Offeror and the Company” in the Explanatory Memorandum.

WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective. The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective.

IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with it) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

Shareholders and potential investors should exercise caution when dealing in the Shares or other rights in respect of them. Persons who are in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor or other professional advisers.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

Court Meeting

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications).

Scheme Shareholders whose names appear in the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their Scheme Shares in favour of the Scheme or against it. Alternatively, Scheme Shareholders may vote some of their Scheme Shares in favour of the Scheme and any or all of the balance of their respective Scheme Shares against it (and vice versa). However for the purpose of calculating the “majority in number” requirement at the Court Meeting, Scheme Shareholders may only vote once.

The Scheme is conditional upon, amongst other things, (A) approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, and (B) approval by Independent Shareholders holding at least 75% of

PART IV — LETTER FROM THE BOARD

the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting provided that (i) the Scheme is approved (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement as described above will be met if the total value of Scheme Shares being voted by the Scheme Shareholders in favour of the Scheme is at least 75% of the total value of the Scheme Shares voted by the Scheme Shareholders at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement as described above will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted. For example, if Scheme Shareholder votes all of his/her/its Scheme Shares in favour of the Scheme, he/she/it will be counted as one Scheme Shareholder voting in favour of the Scheme for the purposes of the “majority in number” requirement, however, for the purpose of the Takeovers Code, only the number of Scheme Shares from an Independent Shareholder being so voted will count towards the “75% in value” requirement.

Notice of the Court Meeting is set out in Appendix VI to this Scheme Document. The Court Meeting will be held at 9:30 a.m. (Hong Kong time) on Tuesday, 18 June 2019 at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong.

EGM

The EGM will be held immediately following the Court Meeting.

All Shareholders or Independent Shareholders (as the case may be) whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution by Shareholders to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the ordinary resolution by Shareholders to restore the share capital of the Company to its former amount by allotting and issuing to the Offeror the same number of the Shares as the number of Scheme Shares cancelled and extinguished; and (iii) the ordinary resolution by Independent Shareholders to approve the Rollover Arrangement. No Shareholders are required to abstain from voting on the resolutions described under (i) and (ii) above. Shareholders who are not Independent Shareholders are required to abstain from voting on the resolution described under (iii) above.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders, present and voting either in person or by proxy, at the EGM.

PART IV — LETTER FROM THE BOARD

At the EGM, a poll will be taken and each Shareholder or Independent Shareholder (as the case may be) present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder or Independent Shareholder (as the case may be) may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

Notice of the EGM is set out in Appendix VII of this Scheme Document. The EGM will be held at 10:30 a.m. (Hong Kong time) (or so soon thereafter as the Court Meeting convened for the same day and place shall have been concluded or adjourned) on Tuesday, 18 June 2019 at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 1 July 2019. Further announcements will be made giving details of the results of the Court Meeting and EGM and, if all the resolutions are passed at those meetings, the result of the hearing of the petition for the sanction of the Scheme by the Grand Court, the Scheme Record Date, the Effective Date, and the date of withdrawal of the listing of Shares on the Stock Exchange.

Your attention is drawn to “20. Court Meeting and Extraordinary General Meeting” in the Explanatory Memorandum.

OVERSEAS SHAREHOLDERS

Your attention is drawn to the section headed “17. Overseas Shareholders” in the Explanatory Memorandum.

ACTIONS TO BE TAKEN

Your attention is drawn to “Part II — Actions to be taken” of this Scheme Document and the section headed “23. Summary of actions to be taken” in the Explanatory Memorandum.

RECOMMENDATION

The non-executive directors of the Company may have a material interest in the Proposal and have not participated in any vote of the Board in relation to the Proposal and the Scheme. The directors of the Company believe that the terms of the Proposal, the Scheme and the special deal relating to the Rollover Arrangement are fair and reasonable and in the interests of the Shareholders as a whole.

REGISTRATION AND PAYMENT

Your attention is drawn to the section headed “18. Registration and Payment” in the Explanatory Memorandum.

TAXATION AND INDEPENDENT ADVICE

Your attention is drawn to the section headed “19. Taxation” in the Explanatory Memorandum.

PART IV — LETTER FROM THE BOARD

It is emphasized that none of the Offeror, the Company and Huatai Financial nor any of their respective directors or associates or any other person involved in the Scheme accept responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme. All Scheme Shareholders are recommended to consult their professional advisers if in any doubt as to the taxation implications of the Proposal.

FURTHER INFORMATION

You are urged to read carefully the letters from the Independent Board Committee and from Gram Capital, the Independent Financial Adviser, as set out in Parts V and VI of this Scheme Document, respectively, the Explanatory Memorandum as set out in Part VII of this Scheme Document, the Appendices to this Scheme Document, the Scheme of Arrangement as set out in Appendix V to this Scheme Document, the notice of Court Meeting as set out in Appendix VI to this Scheme Document and the notice of EGM as set out in Appendix VII to this Scheme Document. In addition, a **pink** form of proxy for the Court Meeting and a **white** form of proxy for the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of Shares.

Yours faithfully
For and on behalf of the Board of
China Hengshi Foundation Company Limited
ZHANG Yuqiang
Chairman



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

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

Members of the Independent Board Committee:

Mr. XIE Guoping
Mr. LOU Hetong
Mr. ZHAO Jun

Registered office:
190 Elgin Avenue
George Town
Grand Cayman
KY1-9005
Cayman Islands

27 May 2019

To: The Scheme Shareholders

Dear Sir or Madam,

PROPOSED PRIVATISATION OF
CHINA HENGSHI FOUNDATION COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW)

We have been appointed by the Board as the Independent Board Committee to give a recommendation to the Scheme Shareholders in respect of the Proposal, the Scheme and the Rollover Arrangement, respectively, details of which are set out in “Part IV — Letter from the Board” and the Explanatory Memorandum of this Scheme Document. Terms defined in this Scheme Document shall have the same meanings in this letter unless the context otherwise requires.

Although Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan, Mr. TANG Hsin-hua and Mr. WANG Yuan are non-executive directors of the Company, since:

- (1) each of Mr. ZHANG Yuqiang and Mr. ZHANG Jiankan holds as to 70.28% and 25.23% equity interest indirectly in the Offeror, respectively;
- (2) Mr. TANG Hsin-hua holds a 100% equity interest indirectly in Trade Power Investments Limited, which is a Participating Shareholder; and
- (3) Mr. WANG Yuan is a director and vice president of Zhenshi Holding, of which the Offeror is a wholly-owned subsidiary,

Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan, Mr. TANG Hsin-hua and Mr. WANG Yuan are regarded as being interested in the Proposal and therefore have not participated in any vote of the Board in relation to the Proposal and the Scheme and will not form part of the Independent Board Committee.

PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Gram Capital, the Independent Financial Adviser, has been appointed with our approval, to advise us in connection with the Proposal, the Scheme and the Rollover Arrangement. The details of its advice and recommendations and the principal factors taken into consideration in arriving at its recommendations are set out in “Part VI — Letter from Gram Capital” of this Scheme Document.

In the letter from Gram Capital set out in Part VI of this Scheme Document, Gram Capital states that it considers the terms of the Proposal, the Scheme and the special deal relating to the Rollover Arrangement to be fair and reasonable and recommend the Independent Board Committee to advise the Scheme Shareholders or Independent Shareholders (as the case may be) to vote in favour of the relevant resolutions to be proposed (i) at the EGM to approve the Rollover Arrangement; and (ii) at the Court Meeting and the EGM to approve and implement the Scheme.

The full text of the letter from Gram Capital is set out in Part VI of this Scheme Document.

The Independent Board Committee, having considered the terms of the Proposal, the Scheme and the Rollover Arrangement, and having taken into account the opinion of Gram Capital, and in particular the factors, reasons and recommendations set out in its letter in Part VI of this Scheme Document, considers that the terms of the Proposal, the Scheme and the Rollover Arrangement are fair and reasonable as far as the Independent Shareholders are concerned.

Accordingly, the Independent Board Committee recommends:

- (a) at the Court Meeting, the Scheme Shareholders vote in favour of the Scheme; and
- (b) at the EGM:
 - (i) the Shareholders vote in favour of:
 - (1) the special resolution to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares;
 - (2) the ordinary resolution to restore the share capital of the Company to its former amount by allotting and issuing to the Offeror the same number of the Shares as the number of Scheme Shares cancelled and extinguished; and
 - (ii) the Independent Shareholders vote in favour of:
 - (1) the ordinary resolution to approve the Rollover Arrangement.

PART V — LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee draws the attention of the Scheme Shareholders to (i) the letter from the Board set out in Part IV of the Scheme Document; (ii) the letter from Gram Capital, the Independent Financial Adviser, which sets out the factors and reasons taken into account in arriving at its recommendation to the Independent Board Committee, set out in Part VI of this Scheme Document; and (iii) the Explanatory Memorandum set out in Part VII of this Scheme Document.

Yours faithfully

XIE Guoping
*Independent non-executive
director of the Company*

LOU Hetong
*Independent non-executive
director of the Company*

ZHAO Jun
*Independent non-executive
director of the Company*

Independent Board Committee

PART VI — LETTER FROM GRAM CAPITAL

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee in respect of the Proposal, the Scheme and special deal relating to the Rollover Arrangement for the purpose of inclusion in this Scheme Document.



Room 1209, 12/F,
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

27 May 2019

To: The independent board committee of China Hengshi Foundation Company Limited

Dear Sirs,

**(1) PROPOSED PRIVATISATION OF
CHINA HENGSHI FOUNDATION COMPANY LIMITED
BY THE OFFEROR
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES LAW);
(2) PROPOSED WITHDRAWAL OF LISTING; AND
(3) SPECIAL DEAL RELATING TO ROLLOVER ARRANGEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Proposal, the Scheme and special deal relating to the Rollover Arrangement, details of which are set out in the Scheme Document dated 27 May 2019 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context requires otherwise.

On 1 April 2019, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. The Offeror and the Company jointly announced the Proposal on 4 April 2019 (the “**Joint Announcement Date**”).

The Offeror would like to allow the Participating Shareholders to retain their shareholdings in the Company after the Scheme becomes effective. On 3 April 2019, the Offeror and the Participating Shareholders have entered into the Rollover Agreement, pursuant to which subject to, among others, the relevant Independent Shareholders’ approval, the Participating Shareholders will remain as Shareholders after the Scheme becomes effective and none of the Shares held by the Participating Shareholders will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting.

PART VI — LETTER FROM GRAM CAPITAL

An Independent Board Committee comprising Mr. XIE Guoping, Mr. LOU Hetong, and Mr. ZHAO Jun (all being independent non-executive directors of the Company) has been formed to advise the Independent Shareholders on (i) whether the Proposal and the Scheme are, or are not, fair and reasonable and as to the voting of the Proposal and the Scheme; and (ii) whether the Rollover Arrangement is, or is not, fair and reasonable and as to the voting of the Rollover Arrangement. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in this respect, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Proposal, the Scheme and the Rollover Arrangement pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations as provided to us by the Company's directors (the "**Directors**") and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Scheme Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposal, the Scheme and the Rollover Arrangement. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

Your attention is drawn to the responsibility statements as set out in the section headed "1 RESPONSIBILITY STATEMENTS" of Appendix IV to the Scheme Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Scheme Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposal, the Scheme and/ or the Rollover Arrangement.

We have assumed that the Proposal, the Scheme and the Rollover Arrangement will be consummated in accordance with the terms and conditions set forth in the Scheme Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the

PART VI — LETTER FROM GRAM CAPITAL

Proposal, the Scheme and the Rollover Arrangement, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Proposal, the Scheme and the Rollover Arrangement. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposal, the Scheme and the Rollover Arrangement, we have taken into consideration the following principal factors and reasons:

(1) Background and terms of the Proposal and the Scheme

With reference to the letter from the Board (the “**Board Letter**”) contained in the Scheme Document, on 1 April 2019, the Offeror requested the Board to put forward a proposal to the Scheme Shareholders for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law involving the cancellation of the Scheme Shares (i.e. Shares other than those held by the Offeror and the Offeror Concert Parties) and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange. The Scheme will provide that the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive HK\$2.50 in cash for each Scheme Share. The total consideration of approximately HK\$513.7 million payable for the Scheme Shares will be payable by the Offeror.

As further mentioned in the Board Letter, subject to the fulfilment or waiver (as applicable) of the Conditions as described in the Explanatory Memorandum, the Proposal will be implemented by way of the Scheme, pursuant to which the issued share capital of the Company will be reduced by cancelling and extinguishing the Scheme Shares. Upon issued such reduction, the share capital of the Company will be increased to its former amount by the issuance at par to the Offeror of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company’s books of account as a result of the capital reduction will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror. Upon the Scheme having become effective, the Offeror, namely Heshi, will hold approximately 20.55% of the issued share capital of the Company.

With reference to the Explanatory Memorandum, as at the Latest Practicable Date, the Shareholders (other than the Offeror and Offeror Concert Parties) were interested in 205,480,000 Shares, representing approximately 20.55% of the issued share capital of the Company. With reference to Appendix IV to the Scheme Document, as at the Latest Practicable Date, there are no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

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According to the Board Letter, the cash required for the Proposal is financed by the internal resources of the Offeror. Huatai Financial, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

(2) Information on the Group

With reference to the Board Letter, the Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 21 December 2015. The Group is principally engaged in the design, manufacture and sale of fiberglass fabrics. As mentioned in the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), the Group is the world-leading producer and supplier of fiberglass fabrics used in wind turbine blade. The Group’s major customers include well-known wind turbine manufacturers who are the top 10 players in the global wind power industry.

Set out below is a summary of the audited consolidated financial information on the Group for each of the five years ended 31 December 2018 as extracted from the 2018 Annual Report:

	For the year ended 31 December 2018 <i>RMB'000</i>	For the year ended 31 December 2017 <i>RMB'000</i>	For the year ended 31 December 2016 <i>RMB'000</i>	For the year ended 31 December 2015 <i>RMB'000</i>	For the year ended 31 December 2014 <i>RMB'000</i>
Revenue	1,458,050	1,216,593	1,236,439	1,002,901	678,600
Year on year change (%)	19.85	(1.61)	23.29	47.79	
Gross profit	529,760	448,659	420,721	298,521	190,659
Year on year change (%)	18.08	6.64	40.94	56.57	
Profit for the year	252,754	215,750	252,833	181,492	131,734
Year on year change (%)	17.15	(14.67)	39.31	37.77	

As depicted from the above table, the Group recorded revenue of approximately RMB1.46 billion for the year ended 31 December 2018 (“**FY2018**”), representing an increase of approximately 19.85% as compared to that for the year ended 31 December 2017 (“**FY2017**”). With reference to the 2018 Annual Report, the increase in revenue in FY2018 was primarily attributable to the domestic wind power market reversed from its bottom in 2018, with an 17.95% year-on-year increase in newly-installed wind power capacity, which was driven by factors such as continuous improvement of wind power curtailment, the restriction lifted in the “Three North Region” (Northeast China, North China and Northwest China) and the surge of distributed wind power and offshore wind power. As further mentioned in the 2018 Annual Report, revenue generated from the PRC, Europe and North America contributed most of the revenue of the Group and amounted to approximately RMB676.04 million, RMB362.34 million and RMB216.70 million respectively for FY2018 (representing approximately 46.37%, 24.85% and 14.86% respectively of the Group’s total revenue for FY2018).

The Group recorded gross profit of approximately RMB529.76 million for FY2018, representing an increase of approximately 18.08% as compared to that for FY2017. The gross profit margin (i.e.

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gross profit/ revenue) maintained at similar level and amounted to approximately 36.33% and 36.88% respectively for FY2018 and FY2017. The Group recorded profit of approximately RMB252.75 million for FY2018, representing an increase of approximately 17.15% as compared to that for FY2017.

During the five years ended 31 December 2018, the Group's revenue increased from approximately RMB678.60 million for the year ended 31 December 2014 (“FY2014”) to approximately RMB1.46 billion for FY2018, and the Group's profit increased from approximately RMB131.73 million for FY2014 to approximately RMB252.75 million for FY2018. Both of the Group's revenue and profit for the year were increasing during the said five-year period, except for FY2017. In particular, the Group's profit dropped from approximately RMB252.83 million for the year ended 31 December 2016 (“FY2016”) to approximately RMB215.75 million for FY2017, representing a decrease of approximately 14.67%.

With reference to the annual report of the Company for the year ended 31 December 2017, despite recording an increase in gross profit and a decrease in administrative expenses and research expenditure for FY2017, the Group recorded (i) a decrease in other income of approximately RMB18.95 million as compared to that for FY2016 (mainly attributable to the decrease in government grants received by the Group); (ii) other losses of approximately RMB23.46 million as compared to other gains of approximately RMB37.51 million for FY2016 (mainly due to the effects of the net exchange loss and an increase in net provision for bad debts); and (iii) an increase in selling and distribution expenses of approximately RMB15.09 million as compared to that for FY2016.

According to the 2018 Annual Report, the Group's net assets increased from approximately RMB549.91 million as at 31 December 2014 to approximately RMB1.51 billion as at 31 December 2018.

As mentioned above, the Shares have been listed on the Main Board of the Stock Exchange since 21 December 2015. Based on the 1,000,000,000 Shares in issue and the closing price of HK\$2.18 as at the date of listing on 21 December 2015, the Company had a market capitalization of HK\$2.18 billion. Based on the 1,000,000,000 Shares in issue and the closing price of HK\$2.26 as at the Last Trading Day, the Company had a market capitalization of HK\$2.26 billion. Despite the growth in the Group's business (i.e. (i) revenue increased by approximately 114.86% from FY2014 to FY2018; (ii) profit increased by approximately 91.87% from FY2014 to FY2018; and (iii) net assets increased by approximately 174.59% from 31 December 2014 to 31 December 2018), the market capitalization increased by approximately 3.67% only. Such growth in the price of the listed Shares did not well reflect the growth of the Group's business.

With reference to the section headed “4 MATERIAL CHANGES” of Appendix I to the Scheme Document, (i) the Group's revenue and gross profit for the three months ended 31 March 2019 increased by approximately 44% and 52% respectively as compared to the corresponding period in 2018; and (ii) the profit attributable to the owners of the Company for the three months ended 31 March 2019 increased by approximately 70% as compared to the corresponding period in 2018, mainly due to the aforesaid increases in the Group's revenue and gross profit. Despite the said growth of the Group's revenue and profit for the three months ended 31 March 2019, it is uncertain whether such growth of the business will be reflected in the future price of the listed Shares in view of the historical price performance of the listed Shares (which did not well reflect the growth of the Group's business).

(3) Information on the Offeror

Set out below are information on the Offeror as extracted from the Board Letter:

The Offeror, Heshi, was incorporated in Hong Kong with limited liability on 12 June 2009. The principal activity of the Heshi is international trading and investment holding. The Offeror is wholly owned by Zhenshi Holding, a limited liability company established in the PRC since 1989 and with registered capital of RMB197 million. Zhenshi Holding's principal businesses span various industries, including composite materials production, trading and logistics, special steel production, mineral development, real estate development, hotel management, tourism, healthcare, education and culture, financial investments and so on.

Mr. ZHANG Yuqiang, the controlling shareholder of the Company, a non-executive director of the Company and the chairman of the Board, is also a director of the Offeror, the controlling shareholder, the chairman and founder of Zhenshi Holding. As at the Latest Practicable Date, Mr. ZHANG Yuqiang directly holds 70.28% equity interest in Zhenshi Holding. Mr. ZHANG Yuqiang is the father of Mr. ZHANG Jiankan.

Mr. ZHANG Jiankan, a non-executive director of the Company, is also a director of the Offeror, the director and the general manager of Zhenshi Holding. As at the Latest Practicable Date, Mr. ZHANG Jiankan indirectly holds 25.23% equity interest in Zhenshi Holding through Tongxiang Wushi Trading Co., Ltd.* (桐鄉務石貿易有限公司), a company established under the laws of PRC and wholly owned by him. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang.

Mr. ZHANG Zhiqiang, Mr. ZHOU Senlin and Mr. YANG Guoming, shareholders of Huachen Investment Limited (a company interested in 32.96% of the issued share capital of the Company) directly holds 2.03%, 1.80% and 0.66% equity interest in Zhenshi Holding, respectively. Mr. ZHANG Zhiqiang is Mr. ZHANG Yuqiang's younger brother. Mr. ZHOU Senlin is the younger brother of the wife of Mr. ZHANG Yuqiang. Mr. ZHOU Senlin is also a director and a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司). Mr. YANG Guoming is a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司) and the president of Jushi Group Co., Ltd. (巨石集團有限公司), and has no family tie with Mr. ZHANG Yuqiang.

(4) Reasons for and benefits of the Proposal

(a) *To facilitate a shift in strategy towards transformation and long-term growth*

With reference to the Board Letter, the Company plans to implement a series of long-term transformation and growth strategies. The Offeror and Offeror Concert Parties are of the view that such growth strategies will better unleash the Company's potential in the long run. However, such strategies may affect the Company's short-term growth profile and result in the divergence between the Offeror's and the Company's view on the Company's long term value on one hand, and investors' views on the Company's share price on the other hand. Following the implementation of the Proposal, the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

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According to the statistics published by the World Wind Energy Association, an international non-profit association with over 600 members in around 100 countries working for the promotion and worldwide deployment of wind energy technology, the overall capacity of all wind turbines installed worldwide reached 600 Gigawatt (GW) by the end of 2018. Newly installed capacity of wind turbines worldwide amounted to approximately 53,900 Megawatt (MW), representing a slight increase of approximately 2.57% as compared to that in 2017. While 2018 was the second year in a row with growing number of wind turbines installations, it has a lower rate of growth than 2017 (i.e. 9.8% in 2018 and 10.8% in 2017). PRC, with an additional capacity of 25.9 GW and becoming the first country with an installed wind power capacity of over 200 GW, is the largest wind power market followed by the USA. The USA has an increase in new capacity of 7.6 GW in 2018. The European wind markets were on a decline in 2018.

With reference to the “Wind Power Development under the 13th Five-Year Plan” (《風電發展「十三五」規劃》) which outlined the PRC government’s plan for wind power development for 2016 to 2020 and was published by the National Energy Administration of the PRC, the target installed capacity for wind turbines in 2020 amounted to over 210 million Kilowatt (KW). The PRC government targeted that wind power would contribute 6% of the country’s total power generation in 2020. As further mentioned in the plan, the total investment in wind power constructions would amount to over RMB700 billion within the 13th five-year period (2016 to 2020).

With reference to the “Guidance Opinion on Energy Work for 2018” (《2018年能源工作指導意見》) published by the National Energy Administration of the PRC, the PRC government called for a stable development of wind power while endeavoured to solve the energy consumption issues for renewable energy in 2018. Pursuant to the guidance opinion, the PRC government would restrict new construction scale in areas with serious wind curtailment; steadily construct key wind power base projects; and promote the construction of distributed wind power, low speed wind power and offshore wind power projects.

With reference to the 2018 Annual Report, developing countries will become a global leader in clean energy industry. As for the development of the PRC domestic industry, (i) the market is transforming from scale growth to high quality development; (ii) the development of distributed wind power in the PRC is gradually warming up, and there is tremendous market potential following breakthroughs in technology, engineering, management and related policies, Distributed wind power will become an important supplement in the wind power market; and (iii) the conditions for the parity of the benchmarking on-grid tariff for coal-fired power have been met, and wind power industry will be embracing the era of grid-parity.

As further mentioned in the 2018 Annual Report, facing the unprecedented opportunity of new energy development and capitalizing its leading position in the industry, the Group will continue consolidating the business advantages in respect of the research and development, manufacturing, sales and services of fiberglass fabrics used in wind turbine blades, while stepping up the research and development of production of fiberglass fabrics used in blades with high megawatts which have more potential development values.

The Company’s plan to implement a series of long-term transformation and growth strategies is in line with the development of the wind power industry as highlighted above and the Group’s development strategies as mentioned in the 2018 Annual Report.

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(b) Low liquidity of Shares may continue to cause abnormal share price fluctuation and difficulty for the Company to raise funds

With reference to the Board Letter, the average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 0.18 million Shares per day, representing only approximately 0.02% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs. In addition, given the low liquidity of Shares, the directors of the Offeror believe that the Company's ability to raise funds from the public equity markets is currently limited and any significant improvement in the liquidity of the Shares in the foreseeable future is unlikely.

For our due diligence purpose, we performed a trading liquidity analysis of the Shares for the period from 1 April 2018, being approximately one year prior to the Joint Announcement Date, up to and including the Latest Practicable Date (the "**Review Period**"). The number of trading days per month, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares as at the Latest Practicable Date; and (ii) the total number of issued Shares held by the Independent Shareholders as at the Latest Practicable Date during the Review Period are tabulated below:

Month	Number of trading days	Average daily trading volume (the "Average Volume") <i>Number of Shares</i>	% of the Average Volume to total number of issued Shares as at the Latest Practicable Date <i>(Note 1)</i> <i>Approximate %</i>	% of the Average Volume to total number of issued Shares held by the Independent Shareholders as at the Last Trading Day <i>(Note 2)</i> <i>Approximate %</i>
2018				
April	19	10,842	0.00	0.01
May	21	8,667	0.00	0.00
June	20	25,800	0.00	0.01
July	21	19,714	0.00	0.01
August	23	348	0.00	0.00
September	19	2,947	0.00	0.00
October	21	15,238	0.00	0.01
November	22	8,182	0.00	0.00
December	19	85,895	0.01	0.04
2019				
January	22	20,091	0.00	0.01
February	17	22,000	0.00	0.01
March	21	39,238	0.00	0.02
April	17			
	<i>(Note 3)</i>	49,176	0.00	0.02
May (up to and including the Latest Practicable Date)	16	16,625	0.00	0.01
Offer Period (from 4 April 2019 up to and including the Latest Practicable Date)	32	30,000	0.00	0.01

Source: the Stock Exchange's website

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Notes:

1. Based on 1,000,000,000 existing Shares in issue as at the Latest Practicable Date.
2. Based on 205,480,000 existing Shares held by the Independent Shareholders as at the Latest Practicable Date.
3. Trading in Shares was halted with effect from 1:00 p.m. on 1 April 2019 and resumed at 9:00 a.m. on 4 April 2019. 1 April 2019 is counted as a trading day.

As illustrated from the table above, the monthly average daily trading volume of the Shares was thin during the Review Period. The Average Volume of Shares traded in each month was (i) not higher than 0.01% of the total number of existing Shares in issue as at the Latest Practicable Date and (ii) not higher than 0.04% the total number of issued Shares held by the Independent Shareholders as at the Latest Practicable Date. During the Review Period, the Company recorded no trading of Shares in 172 trading days.

In light of the above, we also consider that the trading liquidity of the Shares is low and disposal of a large number of Shares by Shareholders in the open market may have adverse impact on the price of Shares.

(c) *A good opportunity for Scheme Shareholders to realise their investment for a premium*

With reference to the Board Letter, the Proposal are intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at a premium to the market price. For reference purpose, the Cancellation Price of HK\$2.50 represents a premium of approximately 19.05% over the average closing price of the Shares for the 60 trading days up to and including the Last Trading Day, a premium of approximately 25.63% over the average closing price of Shares for the 120 trading days up to and including the Last Trading Day, or a premium of approximately 27.55% over the average closing price of Shares for the 180 trading days up to and including the Last Trading Day.

(d) *Cost reduction from the saving of cost of listing and cost of investor relations*

With reference to the Board Letter, the delisting of the Company would reduce the costs and management resources associated with the maintenance of the Company's listing status on the Stock Exchange, therefore the delisting of the Company is expected to result in a more efficient and cost effective group structure and create more flexibility for the Group to manage its business in an efficient and sustainable manner.

(5) The Cancellation Price

With reference to the Board Letter, the Cancellation Price has been determined on a commercial basis after taking into account the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years.

Cancellation Price comparison

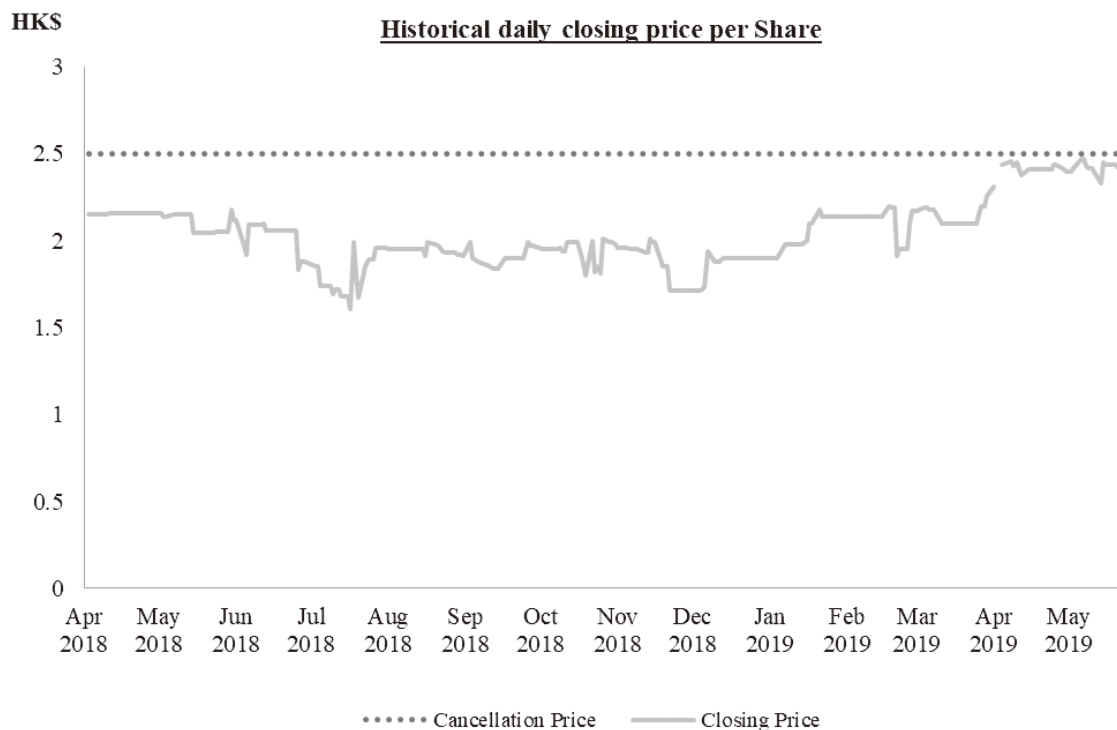
The Cancellation Price of HK\$2.50 per Scheme Share represents:

- (i) a premium of approximately 5.93% to the closing price of HK\$2.36 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (ii) a premium of approximately 8.23% over the last trading price of HK\$2.31 per Shares immediately before the halt of trading in the shares of the Company with effect from 1:00 p.m. on 1 April 2019;
- (iii) a premium of approximately 10.62% (the “**LTD Premium**”) over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iv) a premium of approximately 17.37% (the “**30-days Premium**”) over the average closing price of approximately HK\$2.13 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (v) a premium of approximately 19.05% over the average closing price of approximately HK\$2.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (vi) a premium of approximately 25.63% over the average closing price of approximately HK\$1.99 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (vii) a premium of approximately 27.55% over the average closing price of approximately HK\$1.96 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- (viii) a premium of approximately 42.05% (the “**NAV Premium**”) over the audited consolidated net asset value per Share of approximately RMB1.51 (equivalent to approximately HK\$1.76) as at 31 December 2018.

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Historical price performance of the Shares

Set out below is a chart showing the movement of the closing price of the Shares during the Review Period to illustrate the general trend and movement of the closing price of the Shares.



Source: the Stock Exchange's website

Note: Trading in Shares was halted with effect from 1:00 p.m. on 1 April 2019 and resumed at 9:00 a.m. on 4 April 2019.

During the Review Period, the lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK\$1.61 per Share recorded on 17 July 2018 and HK\$2.47 per Share recorded on 6 May 2019 and 7 May 2019. The Cancellation Price is above the closing price of the Shares during the Review Period.

The closing price of the Shares was stable since the start of the Review Period until mid-May 2018. Since then, the closing price of the Shares was on a general decreasing trend until reaching HK\$1.61 on 17 July 2018. During the period from 18 July 2018 to 4 December 2018, the closing price of the Shares fluctuated between HK\$1.67 and HK\$2.01. Since then, the closing price of the Shares was on a general increasing trend before the Offer Period Commencement Date on 4 April 2019, reaching HK\$2.26 on the Last Trading Day (29 March 2019) and HK\$2.31 on 1 April 2019 (before the trading halt of Shares at 1:00 p.m.). From the Offer Period Commencement Date to the Latest Practicable Date, the closing price of the Shares fluctuated between HK\$2.33 and HK\$2.47.

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Comparison with other comparable companies

To further assess the fairness and reasonableness of the Cancellation Price, we performed the trading multiple analysis which includes the price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”) as below. We searched for listed companies in Hong Kong which are engaged in similar line of business as the Company, being the production and sales of wind energy related equipment (and derived more than 50% of their turnover from such business based on their respective latest published financial information) for comparison. To the best of our knowledge and endeavour and as far as we are aware of, we found two companies listed in Hong Kong which meet our selection criteria and they are exhaustive as far as we are aware of (the “**Comparable Company/(ies)**”). Given that the Comparable Companies are engaged in similar principal business as the Company, we consider the PER and PBR of the Comparable Companies to be appropriate references for comparison.

Set out below are PERs and PBRs of the Comparable Companies based on their closing prices as at the Latest Practicable Date, and their latest published financial information:

Company name (Stock Code)	Principal business	Year-end date	PER (Note 1)	PBR (Note 2)
China High Speed Transmission Equipment Group Co., Ltd. (658)	Manufacture and sales of gear products	31 December 2018	34.87	0.67
Xinjiang Goldwind Science & Technology Co., Ltd. (2208)	Manufacture and distribution of wind turbine generator sets and spare parts	31 December 2018	9.04	1.16
The Company (the Proposal)			8.49 (Note 3)	1.42 (Note 4)

Notes:

1. The PERs of the Comparable Companies were calculated based on their respective latest published annual results and their respective closing prices as quoted on the Stock Exchange and total issued shares as at the Latest Practicable Date.
2. The PBRs of the Comparable Companies were calculated based on their respective latest published annual results and their respective closing prices as quoted on the Stock Exchange and total issued shares as at the Latest Practicable Date.
3. The implied PER of the Proposal was calculated based on the Cancellation Price and the audited profit of the Group for 31 December 2018.
4. The implied PBR of the Proposal was calculated based on the Cancellation Price and the net asset value of the Group as at 31 December 2018.

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We noted that the implied PER and PBR of the Proposal are relatively close to those of Xinjiang Goldwind Science & Technology Co., Ltd. The implied PER of the Proposal is lower than those of the two Comparable Companies, while the implied PBR of the Proposal is higher than those of the two Comparable Companies.

Comparison with other privatisation transactions

To further assess the fairness and reasonableness of the Cancellation Price, we also searched for approved and completed privatisation transactions by way of scheme of arrangement announced by listed companies in Hong Kong from 1 April 2017 (being approximately two years prior to the Joint Announcement Date) up to the Latest Practicable Date (the “**Privatisation Cases**”). To the best of our knowledge and as far as we are aware of, we found 10 Privatisation Cases which meet the aforesaid criteria for comparison and they are exhaustive as far as we are aware of.

Company name (stock code)	Initial announcement date of the proposal	Premium/(discount) of the cancellation price over/to closing price per share on last full trading day prior to the publication of announcement in relation to the respective proposal <i>Approximate %</i>	Premium/(discount) of the cancellation price over/to average closing price per share for the 30 full trading days prior to the publication of announcement in relation to the respective proposal <i>Approximate %</i>	Premium/(discount) of cancellation price over/to the respective net asset value per share (<i>note 1</i>) <i>Approximate %</i>
Hopewell Holdings Limited (54)	5 December 2018	46.69	55.51	(35.56)
Sinotrans Shipping Limited (368)	27 September 2018	50.00	42.86	(25.21)
Hong Kong Aircraft Engineering Company Limited (44)	10 June 2018	63.20 <i>(note 2)</i>	62.43 <i>(note 2)</i>	114.49 <i>(note 2)</i>
Portico International Holdings Limited (589)	7 June 2018	50.18	49.09	(9.85)
Welling Holding Limited (382)	10 November 2017	30.38	33.77	23.35
China Assets (Holdings) Limited (170)	3 July 2017	61.52	76.62	(53.82)
Bloomage BioTechnology Corporation Limited (963)	19 June 2017	16.76	24.71	231.17
China Metal International Holdings Inc. (319)	29 May 2017	27.54	25.94	28.80
Belle International Holdings Limited (1880)	28 April 2017	19.54	21.39	76.97
TCC International Holdings Limited (1136)	20 April 2017	38.46 <i>(note 3)</i>	51.26 <i>(note 3)</i>	(4.00) <i>(note 3)</i>
	Maximum	63.20	76.62	231.17
	Minimum	16.76	21.39	(53.82)
	Average	40.43	44.36	34.63
The Company	4 April 2019	10.62	17.37	42.05

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Notes:

1. With reference to the relevant announcements and based on the respective then latest published net assets value of the subject companies.
2. The cancellation price was adjustment for dividend according to the scheme document dated 14 September 2018.
3. The proposal included either a cash alternative or a share alternative. The calculation is based on the cash alternative proposal.

Despite that the LTD Premium and the 30-days Premium fall below the relevant ranges of the Privatisation Cases, the NAV Premium falls within the relevant range of the Privatisation Cases and is higher than the relevant average of the Privatisation Cases.

Taking into account that:

- (i) the Cancellation Price is above the closing price of the Shares during the Review Period;
- (ii) the implied PER and PBR of the Proposal are not deviated from the Comparable Companies (i.e. the implied PER and PBR of the Proposal are close to those of one Comparable Company; while the implied PER of the Proposal is lower than those of the two Comparable Companies, the implied PBR of the Proposal is higher than those of the two Comparable Companies);
- (iii) the NAV Premium falls within the relevant range of the Privatisation Cases and is higher than the relevant average of the Privatisation Cases (despite that the LTD Premium and the 30-days Premium fall below the relevant ranges of the Privatisation Cases); and
- (iv) the trading liquidity of the Shares is low and disposal of a large number of Shares by Shareholders in the open market may have adverse impact on the price of Shares,

we consider the Cancellation Price to be fair and reasonable and we are of the view that that the Scheme provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

(6) The Rollover Arrangement

With reference to the Board Letter, the Offeror would like to allow the Participating Shareholders to retain their shareholdings in the Company after the Scheme becomes effective. The Participating Shareholders hold in aggregate 33.39% of the issued share capital of the Company as at the Latest Practicable Date. The Offeror is of view that the Company can benefit from the commitment of the Participating Shareholders and it is important for the Company to retain the Participating Shareholders as Shareholders after the completion of the Scheme so that the Participating Shareholders will have incentives to continue to contribute to the future development and growth of the Group.

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Information on the Participating Shareholders

Set out below are information on the Participating Shareholders as extracted from the Explanatory Memorandum:

Trade Power Investments Limited is indirectly owned as to 100% by Mr. TANG Hsin-Hua, a non-executive director of the Company and the founder of the Company's business. Joyfar Limited, which is indirectly owned as to 100% by Mr. FANG Yan Zau Alexander, is a pre-IPO investor of the Company who has been holding Shares since prior to the initial public offering of the Company in 2015. Mr. TANG Hsin-hua and Mr. FANG Yan Zau Alexander have been long term business partners of Mr. ZHANG Yuqiang and Mr. ZHANG Jiankan. They have extensive operational expertise and in-depth understanding of Company's business, and share the same vision on the Company's long-term development strategy.

Mr. CAO Guorong is a deputy general manager of China Jushi Co., Ltd. and a vice president of its wholly-owned PRC subsidiary Jushi Group Co., Ltd. Zhenshi Holding, the parent company of the Offeror, owns 15.59% of the issued share capital of China Jushi Co., Ltd., and Mr. ZHANG Yuqiang also serves as a deputy chairman of the board of directors and the general manager of China Jushi Co., Ltd. Mr. CAO Guorong has been a long-term colleague of Mr. ZHANG Yuqiang, who has been working closely with each other. He has rich experience of business operation and deep understanding of the fiberglass industry, and shares the same view on Company's long-term development strategy.

The Rollover Agreement

With reference to the Board Letter, the Offeror and the Participating Shareholders have entered into the Rollover Agreement, pursuant to which:

- (a) subject to, among others, the Independent Shareholders' approval as set out in the sub-section headed "Independent Shareholders' Approval" of the Explanatory Memorandum, the Participating Shareholders will remain as Shareholders after the Scheme becomes effective and none of the Shares held by the Participating Shareholders will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;
- (b) each of the Participating Shareholders has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that they shall be bound by, and take all actions necessary to implement the Scheme;
- (c) the Participating Shareholders have further undertaken that they shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by them, nor will they accept any other offer in respect of all or any of such Shares; and
- (d) the Participating Shareholders will remain on the register of members of the Company immediately after the Scheme becomes effective.

PART VI — LETTER FROM GRAM CAPITAL

Further details of the Rollover Arrangement and the Rollover Agreement are set out in the section headed “SPECIAL DEAL RELATING TO ROLLOVER ARRANGEMENT” of the Board Letter.

RECOMMENDATION

In relation to the Proposal and the Scheme, having taken into consideration the principal factors and reasons as discussed above, in particular:

- (i) the Company’s plan to implement a series of long-term transformation and growth strategies (which are in line with the development of the wind power industry as highlighted and the Group’s development strategies as mentioned in the 2018 Annual Report);
- (ii) the low trading liquidity of the Shares; and
- (iii) the Cancellation Price being fair and reasonable,

we are of the opinion that the terms of the Proposal and the Scheme are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve the Proposal and the Scheme.

In relation to the special deal relating to the Rollover Arrangement, taking into account that the approval of the Rollover Arrangement by the Independent Shareholders at the EGM is a condition precedent to the implementation of the Proposal. If the Rollover Arrangement is not approved by the Independent Shareholders, the Proposal will not be implemented and the Scheme will not take effect. In view of that the terms of the Proposal and the Scheme are fair and reasonable, we also consider that the approval of the Rollover Arrangement, which is a prerequisite for the implementation of the Proposal, is in the interest of the Company and the Shareholders. Having also considered that:

- (i) the Participating Shareholders are familiar with the Group’s business (in particular, (a) Trade Power Investments Limited is indirectly wholly owned by the founder of the Company’s business; (b) Joyfar Limited is indirectly wholly owned by a pre-IPO investor of the Company who has been holding Shares prior to the initial public offering of the Company in 2015; and (c) Mr. CAO Guorong has been a long-term colleague of Mr. ZHANG Yuqiang (the controlling shareholder of the Company and chairman of the Board, a director of the Offeror and the controlling shareholder, the chairman and founder of Zhenshi Holding), the two have been working closely with each other);
- (ii) given the background of the Participating Shareholders, it is important for the Company to retain the Participating Shareholders as Shareholders after the completion of the Scheme so that the Participating Shareholders will have incentives to continue to contribute to the future development and growth of the Group; and
- (iii) the Rollover Agreement does not provide the Participating Shareholders interests in the Company which the Participating Shareholders do not originally own,

we are of the opinion that the terms of the Rollover Arrangement are fair and reasonable. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the EGM to approve the Rollover Arrangement.

PART VI — LETTER FROM GRAM CAPITAL

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Scheme Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

PART VII — EXPLANATORY MEMORANDUM

This Explanatory Memorandum constitutes the statement required under Order 102, rule 20(4)(e) of the Rules of the Grand Court of the Cayman Islands 1995 (revised).

SCHEME OF ARRANGEMENT TO CANCEL ALL THE SCHEME SHARES IN CONSIDERATION OF THE OFFEROR AGREEING TO PAY THE CANCELLATION PRICE

1. INTRODUCTION

The Offeror and the Company jointly issued an announcement dated 4 April 2019, which stated that on 1 April 2019, the Offeror requested the Board of the Company to put forward the Proposal to the Scheme Shareholders regarding the proposed privatisation of the Company by way of the Scheme.

The Scheme and the Proposal involve the cancellation of all the Scheme Shares in exchange for the Cancellation Price, as a result of which it is intended that the Company will be owned by the Offeror as to 20.55% and by the Offeror Concert Parties as to 79.45%, and the listing of the Shares on the Stock Exchange will be withdrawn. The expected latest time for trading of the Shares on the Stock Exchange will be close of trading hours on Tuesday, 25 June 2019.

The purpose of this Explanatory Memorandum is to explain the terms and effects of the Proposal, which are to be implemented by the Scheme, and to provide Shareholders with other relevant information in relation to the Scheme and the Proposal, in particular, to provide the intentions of the Offeror with regard to the Company and the shareholding structure of the Company before and after the Scheme and the Proposal.

Particular attention of the Shareholders is drawn to the following sections of this Scheme Document: (a) the Letter from the Board set out in Part IV of this Scheme Document; (b) the Letter from the Independent Board Committee set out in Part V of this Scheme Document; (c) the Letter from Gram Capital set out in Part VI of this Scheme Document; and (d) the terms of the Scheme set out in Appendix V to this Scheme Document.

2. TERMS OF THE SCHEME AND THE PROPOSAL

The Proposal is to be implemented by way of the Scheme by the Offeror.

Under the Scheme, the Scheme Shares will be cancelled and, in consideration thereof, each Scheme Shareholder whose name appears on the register of members of the Company as at the Scheme Record Date will be entitled to receive the Cancellation Price. The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so.

Shareholders whose names appear on the register of members of the Company as at the record date for entitlement to a dividend (if any) declared by the Company on or before the Effective Date will be entitled to receive such dividend (if any).

On 29 March 2019, the Company announced a final dividend for the year ended 31 December 2018 at RMB0.08855 per Share which was approved by the Shareholders at the annual general meeting

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of the Company on 9 May 2019 and is expected to be distributed on 27 May 2019 to the Shareholders whose names appear on the register of members of the Company on 20 May 2019.

Save as disclosed as above, the Company does not expect to declare any further dividend on or before the Effective Date.

As at the Latest Practicable Date, the authorised share capital of the Company was US\$2,000,000 divided into 2,000,000,000 Shares of par value US\$0.001, and the issued share capital of the Company was approximately US\$1,000,000 divided into 1,000,000,000 Shares of par value US\$0.001. All of the Shares rank equally in all respects as regards to rights to capital, dividends and voting. As at the Latest Practicable Date, the Shareholders (other than the Offeror Concert Parties) were interested in 205,480,000 Shares, representing approximately 20.55% of the issued share capital of the Company.

After the Scheme becomes effective, the listing of the Shares on the Stock Exchange will be withdrawn and the Company will be owned by the Offeror as to 20.55% and by the Offeror Concert Parties as to 79.45%. The Scheme and the Proposal are conditional upon the fulfilment or waiver, as applicable, of the Conditions as described in the paragraph headed “4. Conditions of the Proposal and the Scheme” below. All the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Scheme and the Proposal will lapse. Further announcements on any changes regarding the timetable of the Scheme and the Proposal will be made as and when necessary.

If the Scheme and the Proposal do not become unconditional, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange.

Settlement of the Cancellation Price will be implemented in full in accordance with the terms of the Scheme and the Proposal, respectively, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

3. CANCELLATION CONSIDERATION

The Cancellation Price represents:

- a premium of approximately 5.93% over the closing price of HK\$2.36 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 8.23% over the last trading price of HK\$2.31 per Shares immediately before the halt of trading in the shares of the Company with effect from 1:00 p.m. on 1 April 2019;
- a premium of approximately 10.62% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on the Last Trading Day;

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- a premium of approximately 17.37% over the average closing price of approximately HK\$2.13 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- a premium of approximately 19.05% over the average closing price of approximately HK\$2.10 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 25.63% over the average closing price of approximately HK\$1.99 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- a premium of approximately 27.55% over the average closing price of approximately HK\$1.96 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day; and
- a premium of approximately 42.05% over the audited net assets value per Share attributable to the Shareholders of approximately RMB1.51 (equivalent to approximately HK\$1.76) as at 31 December 2018.

4. CONDITIONS OF THE PROPOSAL AND THE SCHEME

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Scheme Shares held by the Scheme Shareholders present and voting either in person or by proxy at the Court Meeting;
- (b) the approval of the Scheme (by way of poll) by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by Independent Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders;
- (c) (i) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting in person or by proxy at an extraordinary general meeting of the Company to approve and give effect to the reduction of the share capital of the Company by cancelling and extinguishing the Scheme Shares, and (ii) the passing of an ordinary resolution by the Shareholders at an extraordinary general meeting of the Company to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number

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of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror;

- (d) the Grand Court's sanction of the Scheme (with or without modifications) and its confirmation of the reduction of the share capital of the Company, and the delivery to the Registrar of Companies in the Cayman Islands of a copy of the order of the Grand Court for registration;
- (e) (i) the receipt of an opinion from Gram Capital to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable as far as the Independent Shareholders are concerned, (ii) the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Rollover Arrangement, and (iii) the consent from the Executive to the Rollover Arrangement;
- (f) compliance, to the extent necessary, with the procedural requirements and conditions, if any, under sections 15 to 17 of the Companies Law in relation to the reduction of the issued share capital of the Company;
- (g) all necessary Authorisations in connection with the Proposal having been obtained from, given by or made with (as the case may be) the Relevant Authorities, in the Cayman Islands, Hong Kong and any other relevant jurisdictions;
- (h) all necessary Authorisations in connection with the Proposal remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective;
- (i) all necessary consents which may be required for the implementation of the Proposal and the Scheme under any existing contractual obligations of the Company being obtained or waived by the relevant party(ies), where any failure to obtain such consent or waiver would have a material adverse effect on the business of the Group;
- (j) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme; and

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- (k) since 4 April 2019, there having been no adverse change in the business, assets, financial or trading positions, profits or prospects of the Group (to an extent which is material in the context of the Group taken as a whole or in the context of the Proposal).

The Offeror reserves the right to waive conditions (g), (h), (i), (j) and (k) either in whole or in part, either generally or in respect of any particular matter. Conditions (a), (b), (c), (d), (e) and (f) cannot be waived in any event. Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to the right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal.

As at the Latest Practicable Date, none of the conditions has been fulfilled or waived. In respect of condition (g), (h) and (i), as at the Latest Practicable Date, the Offeror and the Company do not reasonably foresee any necessary Authorisations required for the Proposal and the Scheme, save for the consents from the Executive in relation to special deal relating to the Rollover Arrangement, which also forms part of condition (e)(iii), and the sanction of the Grand Court.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Executive may consent and the Grand Court may direct), failing which the Proposal and the Scheme will lapse. The Company has no right to waive any of the Conditions.

Assuming that the above Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 1 July 2019 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, if the resolutions are passed at those meetings; (ii) the result of the Grand Court hearing of the petition to sanction of the Scheme and to confirm the capital reduction; (iii) the Scheme Record Date; (iv) the Effective Date and the withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III — Expected Timetable” of this Scheme Document.

If the Scheme is not approved or the Proposal otherwise lapses, the Company has no intention to seek the immediate withdrawal of the listing of the Shares on the Stock Exchange. An announcement will be made in due course in such event.

Shareholders and/or potential investors should be aware that the implementation of the Scheme and the Proposal is subject to the Conditions being fulfilled or waived, as applicable, and thus the Proposal may or may not be implemented and the Scheme may or may not become effective. Shareholders and/or potential investors should therefore exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealer or registered institution in securities, bank manager, solicitor or other professional advisers.

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5. THE SCHEME AND THE COURT MEETING

Pursuant to Section 86 of the Companies Law, where an arrangement is proposed between a company and its members or any class of them, the Grand Court may, on the application of the company or any member of the company, order a meeting of the members of the company or class of members, as the case may be, to be summoned in such manner as the Grand Court directs.

It is expressly provided in Section 86 of the Companies Law that if a majority in number representing 75% in value of the members or class of members, as the case may be, present and voting either in person or by proxy at the meeting held as directed by the Grand Court as aforesaid, agree to any arrangement, the arrangement shall, if sanctioned by the Grand Court, be binding on all members or class of members, as the case may be, and also on the company. For the avoidance of doubt, the Grand Court will be requested to order the convening of a meeting of a class of members being the Scheme Shareholders.

6. ADDITIONAL REQUIREMENTS AS IMPOSED BY RULE 2.10 OF THE TAKEOVERS CODE

In addition to satisfying any requirements imposed by law as summarised above, other than with the consent of the Executive to dispense with compliance or strict compliance therewith, Rule 2.10 of the Takeovers Code requires that the Scheme may only be implemented if:

- (a) the Scheme is approved by at least 75% of the votes attaching to the Scheme Shares held by the Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and
- (b) the number of votes cast by the Independent Shareholders present and voting either in person or by way of proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all the Independent Shareholders.

For the purpose of this vote, the Independent Shareholders comprise all the Shareholders as at the Meeting Record Date other than the Offeror Concert Parties. For the avoidance of doubt, the Independent Shareholders include any member of the Huatai Financial as a group, acting in its capacity as a Registered Owner of the Shares held on behalf of a Beneficial Owner where the Beneficial Owner (i) controls the voting rights attaching to those Shares; (ii) if the Shares are voted, gives instructions as to how those Shares are to be voted; and (iii) is not a Offeror or a Offeror Concert Party. Shareholders that are not Independent Shareholders will be required to abstain from voting at the Court Meeting in accordance with the Takeovers Code.

As at the Latest Practicable Date, the Independent Shareholders held in aggregate 205,480,000 Scheme Shares. On that basis, 10% of the votes attached to Scheme Shares held by all the Independent Shareholders referred to in (b) above therefore represent approximately 20,548,000 Shares as at the Latest Practicable Date.

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7. BINDING EFFECT OF THE SCHEME AND THE PROPOSAL

Upon the Scheme and the Proposal becoming effective, it will be binding on the Company and all the Shareholders, regardless of how they voted (or whether they voted) at the Court Meeting and the EGM.

8. SCHEME SHARES

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Proposal:

Shareholders	As at the Latest Practicable Date		Upon completion of the Proposal	
	Number of Shares	%	Number of Shares	%
Offeror				
Heshi ¹	—	—	205,480,000	20.55
Offeror Concert Parties				
— Huachen Investment Limited ²	329,602,500	32.96	329,602,500	32.96
— Huakai Investment Limited ³	131,015,500	13.10	131,015,500	13.10
— Trade Power Investments Limited ⁴	225,000,000	22.50	225,000,000	22.50
— Joyfar Limited ⁵	75,000,000	7.50	75,000,000	7.50
— Mr. CAO Guorong ⁶	33,902,000	3.39	33,902,000	3.39
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	<u>794,520,000</u>	<u>79.45</u>	<u>1,000,000,000</u>	<u>100.00</u>
Independent Shareholders	<u>205,480,000</u>	<u>20.55</u>	<u>—</u>	<u>—</u>
Total	<u><u>1,000,000,000</u></u>	<u><u>100.00</u></u>	<u><u>1,000,000,000</u></u>	<u><u>100.00</u></u>
Total number of Scheme Shares	205,480,000	20.55		

Notes:

- Heshi is wholly owned by Zhenshi Holding which is in turn, owned by Mr. ZHANG Yuqiang, Tongxiang Wushi Trading Co., Ltd.* (桐鄉務石貿易有限公司, a company wholly owned by Mr. ZHANG Jiankan), Mr. ZHANG Zhiqiang, Mr. ZHOU Senlin and Mr. YANG Guoming as to 70.28%, 25.23%, 2.03%, 1.8% and 0.66% respectively.
- Huachen Investment Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, beneficially owned as to 95.95% by Mr. ZHANG Yuqiang, the controlling shareholder, a non-executive director and the chairman of the Company, and as to 2.77% by Mr. ZHANG Zhiqiang, 0.37% by Mr. ZHOU Senlin and 0.90% by Mr. YANG Guoming, respectively. Mr. ZHANG Yuqiang is a director of Huachen Investment Limited and is deemed to be acting in concert with Huachen Investment Limited pursuant to the definition of “Acting in concert” set out in the Takeovers Code. In addition, he is a director of the Offeror and deemed to be acting in concert with the Offeror pursuant to the definition of “Acting in concert” set out in the Takeovers Code. Accordingly, Huachen Investment Limited is deemed to be acting in concert with the Offeror.

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3. Huakai Investment Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, and 100% beneficially owned by Mr. ZHANG Jiankan, a non-executive Director and the son of Mr. ZHANG Yuqiang. Mr. ZHANG Jiankan is a director of Huakai Investment Limited and is deemed to be acting in concert with Huakai Investment Limited pursuant to the definition of “Acting in concert” set out in the Takeovers Code. In addition, he is a director of the Offeror and deemed to be acting in concert with the Offeror pursuant to the definition of “Acting in concert” set out in the Takeovers Code. Accordingly, Huakai Investment Limited is deemed to be acting in concert with the Offeror.
4. Trade Power Investments Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, and is 100% owned by Soar City Investments Limited, which is in turn 100% owned by Mr. TANG Hsin-hua, a non-executive director of the Company.
5. Joyfar Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, and is 100% owned by Top Way Alliance Limited, which is in turn 100% owned by Mr. FANG Yan Zau Alexander.
6. Mr. CAO Guorong, who owns 3.39% Shares of the Company, is a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司) and a vice president of its wholly-owned PRC subsidiary Jushi Group Co., Ltd. (巨石集團有限公司). China Jushi Co., Ltd. is a joint stock company incorporated in the PRC with limited liability whose shares have been listed on the Main Board of the Shanghai Stock Exchange, in which Zhenshi Holding holds 15.59% equity interest.
7. All percentages in the above table are approximations rounded to two decimal places.

Following the Effective Date and the withdrawal of listing of the Shares on the Stock Exchange, (i) the Offeror, namely Heshi, will beneficially hold 205,480,000 Shares, representing approximately 20.55% of the issued share capital of the Company, (ii) the Offeror Concert Parties will beneficially hold in aggregate 794,520,000 Shares, representing approximately 79.45% of the issued share capital of the Company, and (iii) the Offeror and Offeror Concert Parties will beneficially hold in aggregate 1,000,000,000 Shares, representing 100% of the issued share capital of the Company, on the assumption that there is no other change in shareholding in the Company before completion of the Proposal.

As at the Latest Practicable Date, there are 1,000,000,000 Shares in issue and the Scheme Shareholders are interested in 205,480,000 Shares, representing approximately 20.55% of the issued share capital of the Company.

As at the Latest Practicable Date, the Offeror held no Shares. As at the Latest Practicable Date, the Offeror Concert Parties legally and/or beneficially held in aggregate 794,520,000 Shares, representing approximately 79.45% of the issued share capital of the Company. As at the Latest Practicable Date, the Offeror and Offeror Concert Parties legally and/or beneficially held in aggregate 794,520,000 Shares, representing approximately 79.45% of the issued share capital of the Company. The Shares legally and/or beneficially held by the Offeror and Offeror Concert Parties will not form part of the Scheme Shares and will not be voted on the Scheme at the Court Meeting.

There were no options, warrants or convertible securities in respect of the Shares held, controlled or directed by the Offeror or the Offeror Concert Parties, or outstanding derivatives in respect of the Shares entered into by the Offeror or the Offeror Concert Parties as at the Latest Practicable Date.

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9. TOTAL CONSIDERATION AND FINANCIAL RESOURCES

Based on the Cancellation Price of HK\$2.50, the amount of cash required to implement the Scheme would be approximately HK\$513.7 million.

The cash required for the Proposal is financed by the internal resources of the Offeror.

Huatai Financial, the financial adviser to the Offeror in connection with the Scheme and the Proposal, is satisfied that sufficient financial resources are available to the Offeror for discharging its obligations in respect of the full implementation of the Proposal.

10. REASONS FOR, AND BENEFITS OF, THE SCHEME AND THE PROPOSAL

(a) *To facilitate a shift in strategy towards transformation and long-term growth*

The Company plans to implement a series of long-term transformation and growth strategies. The Offeror and Offeror Concert Parties are of the view that such growth strategies will better unleash the Company's potential in the long run. However, such strategies may affect the Company's short-term growth profile and result in the divergence between the Offeror's and the Company's view on the Company's long-term value on one hand, and investors' views on the Company's share price on the other hand. Following the implementation of the Proposal, the Company can make strategic decisions focused on long-term benefits, free from the pressure of market expectations, profit visibility and share price fluctuation associated with being a publicly listed company.

(b) *Low liquidity of Shares may continue to cause abnormal share price fluctuation and difficulty for the Company to raise funds*

The average daily trading volume of the Shares for the 24 months up to and including the Last Trading Day was approximately 0.18 million Shares per day, representing only approximately 0.02% of the issued Shares as at the Latest Practicable Date. The low trading liquidity of the Shares could make it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares and also make it difficult for Shareholders to dispose of a large number of Shares when any event that has an adverse impact on the Company's share price occurs.

In addition, given the low liquidity of Shares, the directors of the Offeror believe that the Company's ability to raise funds from the public equity markets is currently limited and any significant improvement in the liquidity of the Shares in the foreseeable future is unlikely.

(c) *A good opportunity for Scheme Shareholders to realise their investment for a premium*

The Proposal is intended to provide the Scheme Shareholders with an opportunity to realise their investment in the Company for cash at a premium to the market price. For reference purpose, the Cancellation Price of HK\$2.50 represents a premium of approximately 19.05% over the average closing price of the Shares for the 60 trading days up to and including the Last Trading Day, a premium of approximately 25.63% over the average closing price of Shares for the 120 trading days up to and including the Last Trading Day, or a premium of approximately 27.55% over the average closing price of Shares for the 180 trading days up to and including the Last Trading Day.

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(d) *Cost reduction from the saving of cost of listing and cost of investor relations*

The delisting of the Company would reduce the costs and management resources associated with the maintenance of the Company's listing status on the Stock Exchange, therefore the delisting of the Company is expected to result in a more efficient and cost-effective group structure and create more flexibility for the Group to manage its business in an efficient and sustainable manner.

11. INFORMATION ON THE COMPANY

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose shares have been listed on the Main Board of the Stock Exchange since 21 December 2015. The Group is principally engaged in the design, manufacture and sale of fiberglass fabrics.

As at the Latest Practicable Date, the Company is solvent and is not unable to pay its debts as they fall due and will not become unable to do so immediately after the Latest Practicable Date.

12. INFORMATION ON THE OFFEROR

The Offeror, Heshi, was incorporated in Hong Kong with limited liability on 12 June 2009. The principal activity of Heshi is international trading and investment holding.

The Offeror is wholly owned by Zhenshi Holding, a limited liability company established in the PRC since 1989 and with registered capital of RMB197 million. Zhenshi Holding's principal businesses span various industries, including composite materials production, trading and logistics, special steel production, mineral development, real estate development, hotel management, tourism, healthcare, education and culture, financial investments and so on.

Mr. ZHANG Yuqiang, the controlling shareholder of the Company, a non-executive director of the Company and the chairman of the Board, is also a director of the Offeror, the controlling shareholder, the chairman and founder of Zhenshi Holding. As at the Latest Practicable Date, Mr. ZHANG Yuqiang directly holds 70.28% equity interest in Zhenshi Holding. Mr. ZHANG Yuqiang is the father of Mr. ZHANG Jiankan.

Mr. ZHANG Jiankan, a non-executive director of the Company, is also a director of the Offeror, the director and the general manager of Zhenshi Holding. As at the Latest Practicable Date, Mr. ZHANG Jiankan indirectly holds 25.23% equity interest in Zhenshi Holding through Tongxiang Wushi Trading Co., Ltd.* (桐鄉務石貿易有限公司), a company established under the laws of PRC and wholly owned by him. Mr. ZHANG Jiankan is the son of Mr. ZHANG Yuqiang.

Mr. ZHANG Zhiqiang, Mr. ZHOU Senlin and Mr. YANG Guoming, shareholders of Huachen Investment Limited (a company interested in 32.96% of the issued share capital of the Company) directly holds 2.03%, 1.80% and 0.66% equity interest in Zhenshi Holding, respectively. Mr. ZHANG Zhiqiang is Mr. ZHANG Yuqiang's younger brother. Mr. ZHOU Senlin is the younger brother of the wife of Mr. ZHANG Yuqiang. Mr. ZHOU Senlin is also a director and a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司). Mr. YANG Guoming is a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司) and the president of Jushi Group Co., Ltd. (巨石集團有限公司), and has no family tie with Mr. ZHANG Yuqiang.

13. SPECIAL DEAL RELATING TO ROLLOVER ARRANGEMENT

The Offeror would like to allow the Participating Shareholders to retain their shareholdings in the Company after the Scheme becomes effective. The Participating Shareholders in aggregate hold 33.39% of the issued share capital of the Company as at the Latest Practicable Date.

Trade Power Investments Limited is indirectly owned as to 100% by Mr. TANG Hsin-Hua, a non-executive director of the Company and the founder of the Company's business. Joyfar Limited, which is indirectly owned as to 100% by Mr. FANG Yan Zau Alexander, is a pre-IPO investor of the Company who has been holding Shares since prior to the initial public offering of the Company in 2015. Mr. TANG Hsin-hua and Mr. FANG Yan Zau Alexander have been long term business partners of Mr. ZHANG Yuqiang and Mr. ZHANG Jiankan. They have extensive operational expertise and in-depth understanding of Company's business, and share the same vision on the Company's long-term development strategy.

Mr. CAO Guorong is a deputy general manager of China Jushi Co., Ltd. and a vice president of its wholly-owned PRC subsidiary Jushi Group Co., Ltd. Zhenshi Holding, the parent company of the Offeror, owns 15.59% of the issued share capital of China Jushi Co., Ltd., and Mr. ZHANG Yuqiang also serves as the deputy chairman of the board of directors and the general manager of China Jushi Co., Ltd. Mr. CAO Guorong has been a long-term colleague of Mr. ZHANG Yuqiang, who has been working closely with each other. He has rich experience of business operation and deep understanding of the fiberglass industry, and shares the same view on Company's long-term development strategy.

The Offeror is of view that the Company can benefit from the commitment of the Participating Shareholders and it is important for the Company to retain the Participating Shareholders as Shareholders after the completion of the Scheme so that the Participating Shareholders will have incentives to continue to contribute to the future development and growth of the Group.

Rollover Agreement

The Offeror and the Participating Shareholders have entered into the Rollover Agreement, pursuant to which:

- (a) subject to, among others, the Independent Shareholders' approval as set out in the section headed "Independent Shareholders' Approval" below, the Participating Shareholders will remain as Shareholders after the Scheme becomes effective and none of the Shares held by the Participating Shareholders will constitute Scheme Shares or will be voted on the Scheme at the Court Meeting;
- (b) each of the Participating Shareholders has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise, or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in relation to the Scheme in accordance with the Offeror's directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that they shall be bound by, and take all actions necessary to implement the Scheme;

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- (c) the Participating Shareholders have further undertaken that they shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by them, nor will they accept any other offer in respect of all or any of such Shares; and
- (d) the Participating Shareholders will remain on the register of members of the Company immediately after the Scheme becomes effective.

The Rollover Agreement will be terminated if the Scheme lapses or is withdrawn in accordance with its terms.

The Offeror and the Participating Shareholders have confirmed that:

1. There are no consideration, compensation or benefits in whatsoever form paid or to be paid by the Offeror or parties acting in concert with it to any of the Participating Shareholders or their respective concert parties in connection with the Scheme or the Rollover Agreement; and
2. Other than the Rollover Agreement, there are no other understanding, arrangement, agreement or special deal between the Offeror or parties acting in concert with it on the one hand, and any of the Participating Shareholders or their respective concert parties on the other hand.

Independent Shareholders' Approval

As the Rollover Agreement was only entered into by and between the Offeror and the Participating Shareholders and the Rollover Arrangement thereunder is not offered to all Shareholders, the Rollover Arrangement constitutes special deals and requires the consent of the Executive under Rule 25 of the Takeovers Code. The Offeror has made an application for consent from the Executive in relation to the Rollover Arrangement conditional on Gram Capital to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Rollover Arrangement. Accordingly, as set out in Condition (e), the Proposal and the Scheme are subject to (i) the receipt of an opinion from Gram Capital to the Independent Board Committee confirming that the Rollover Arrangement is fair and reasonable, (ii) the passing of an ordinary resolution by the Independent Shareholders at an extraordinary general meeting of the Company to approve the Rollover Arrangement, and (iii) the consent from the Executive to the Rollover Arrangement.

14. INTENTIONS OF THE OFFEROR AND THE COMPANY

The Offeror and the Company intend to continue the existing business of the Company upon successful implementation of the Scheme and the Proposal. The Offeror and the Company have no intention to make any major changes to the existing operation and business, or to discontinue the employment of the employees of the Group nor do they have any plans to redeploy any of the fixed assets of the Group after implementation of the Scheme and the Proposal. However, the Offeror and the Company will continue to assess business opportunities as they arise.

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15. WITHDRAWAL OF LISTING OF SHARES

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title.

The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange immediately following the Scheme becoming effective.

The Scheme Shareholders will be notified by way of an announcement of the exact date of the last day for dealing in the Shares and on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective. A detailed timetable of the Scheme has been included in “Part III — Expected Timetable” in this Scheme Document.

16. IF THE SCHEME IS NOT APPROVED OR THE PROPOSAL LAPSES

The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses.

If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with it) may within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

If the Independent Board Committee or Gram Capital does not recommend the Proposal, the Scheme, or the Rollover Arrangement, and the Scheme is not approved, all expenses incurred by the Company in connection therewith shall be borne by the Offeror in accordance with Rule 2.3 of the Takeovers Code.

17. OVERSEAS SHAREHOLDERS

The making and implementation of the Proposal to Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions in which such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal, tax or regulatory requirements. It is the responsibility of any overseas Scheme Shareholders wishing to take any action in relation to the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction. Any acceptance by the Scheme Shareholders will be deemed to constitute a representation and warranty from such persons to the Offeror and the Company and their advisers that those laws and regulatory requirements have been complied with.

Scheme Shareholders are recommended to consult their own professional advisers if they are in any doubt as to their positions.

18. REGISTRATION AND PAYMENT

Assuming that the Scheme Record Date falls on Monday, 1 July 2019, it is proposed that the register of members of the Company will be closed from Friday, 28 June 2019 onwards (or such other date as the Shareholders may be notified by way of an announcement) in order to establish entitlements under the Scheme. In order to qualify for entitlements under the Scheme, the Shareholders should ensure that their Shares are lodged with the Hong Kong branch share registrar of the Company for registration in their names or in the names of their nominees before 4:30 p.m. on Thursday, 27 June 2019. The Hong Kong branch share registrar of the Company is Tricor Investor Services Limited, which is located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

Payment of the Cancellation Price to Scheme Shareholders

Upon the Scheme becoming effective, payment of the Cancellation Price for the Scheme Shares will be made to the Scheme Shareholders whose names appear on the register of members of the Company as at the Scheme Record Date. On the basis that the Scheme becomes effective on or about Monday, 1 July 2019 (Cayman Islands time), cheques for payment of the Cancellation Price will be paid for by the Offeror as soon as possible but in any event within 7 business days (as defined in the Takeovers Code) following the Scheme having become effective and accordingly, the cheques are expected to be despatched on or before Wednesday, 10 July 2019. In the absence of any specific instructions to the contrary received in writing by Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, cheques will be sent by ordinary post addressed to the persons entitled thereto at their respective registered addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the register of members of the Company in respect of the joint holding. All such cheques will be sent at the risk of the person(s) entitled thereto and none of the Offeror, the Company and Huatai Financial will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place and all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Offeror that they are entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Assuming that the Scheme becomes effective, all existing certificates representing the Scheme Shares will cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be on or about Monday, 1 July 2019 (Cayman Islands time).

Settlement of the Cancellation Price to which the Scheme Shareholders are entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme, without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against any such Scheme Shareholder.

19. TAXATION

Hong Kong stamp duty and tax consequences

As the Scheme does not involve the sale and purchase of Hong Kong stock, no Hong Kong stamp duty will be payable pursuant to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) on the cancellation of the Scheme Shares upon the Scheme becoming effective. No Cayman Islands stamp duty will become payable as a result of the Scheme.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme and the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholder liable to taxation in Hong Kong or in other jurisdictions.

It is emphasized that none of the Offeror, the Company and Huatai Financial or any of their respective directors, officers or associates or any other person involved in the Scheme and the Proposal accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance or rejection of the Scheme.

20. COURT MEETING AND EXTRAORDINARY GENERAL MEETING

In accordance with the directions of the Grand Court, the Court Meeting will be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme (with or without modifications). Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date will be entitled to attend and vote, in person or by proxy, at the Court Meeting. The Scheme will be subject to the approval by the Independent Shareholders at the Court Meeting in the manner referred to in the paragraphs headed “4. Conditions of the Proposal and the Scheme” and “6. Additional Requirements as Imposed by Rule 2.10 of the Takeovers Code” in this Explanatory Memorandum.

For the avoidance of doubt, the Independent Shareholders who may vote at the Court Meeting include any member of the Huatai Financial as a group, acting in its capacity as a Registered Owner of the Shares held on behalf of a Beneficial Owner where the Beneficial Owner (i) controls the voting rights attaching to those Shares; (ii) if the Shares are voted, gives instructions as to how those Shares are to be voted; and (iii) is not a Offeror or a Offeror Concert Party. Any member of the Huatai Financial as a group (other than exempt principal traders), who holds Shares for its own account or on a discretionary basis, should be excluded from the Independent Shareholders. As at the Latest Practicable Date, there is no such member in the Huatai Financial as a group that holds Shares for its own account or on a discretionary basis.

The EGM will be held after the Court Meeting for the purpose of considering and if thought fit passing (i) the special resolution by the Shareholders to approve the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the ordinary resolution by the Shareholders to immediately restore the share capital of the Company to its former amount by allotting and issuing to the Offeror the same number of the Shares as the number of Scheme Shares cancelled and extinguished; and (iii) the ordinary resolution by the Independent Shareholders to approve the Rollover Arrangement.

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An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and EGM in accordance with Rule 19.1 of the Takeovers Code to the extent applicable. Information on the number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be included in such announcement.

Court Meeting

Scheme Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the Court Meeting. At the Court Meeting, the Scheme Shareholders, present and voting either in person or by proxy, will be entitled to vote all of their respective the Shares in favour of the Scheme or against it.

In accordance with the direction from the Grand Court, HKSCC Nominees Limited shall be permitted to vote both for and against the Scheme in accordance with instructions received by it from the Investor Participants and other CCASS Participants. For the purpose of calculating the “majority in number”, HKSCC Nominees Limited shall be counted as a multi-headed Shareholder voting once “for” and once “against” the Scheme. The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

The Scheme is conditional upon, among other things, (A) approval by a majority in number of the Scheme Shareholders representing not less than 75% in value of the Shares present and voting in person or by proxy at the Court Meeting, and (B) approval by Independent Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Independent Shareholders that are voted either in person or by proxy at the Court Meeting provided that (i) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are voted either in person or by proxy at the Court Meeting; and (ii) the number of votes cast (by way of poll) by the Independent Shareholders present and voting either in person or by proxy at Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all the Shares held by all the Independent Shareholders.

In accordance with the Companies Law, the “75% in value” requirement, as described above, will be met if the total value of the Shares being voted in favour of the Scheme is at least 75% of the total value of the Shares voted at the Court Meeting. In accordance with the Companies Law, the “majority in number” requirement, as described above, will be met if the number of Scheme Shareholders voting in favour of the Scheme exceeds the number of Scheme Shareholders voting against the Scheme. For the purpose of calculating the “majority in number” requirement, the number of Scheme Shareholders, present and voting in person or by proxy, will be counted.

Notice of the Court Meeting is set out in Appendix VI to this Scheme Document. The Court Meeting will be held at 9:30 a.m. (Hong Kong time) on Tuesday, 18 June 2019 at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hungghom, Kowloon, Hong Kong.

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EGM

All the Shareholders whose names appear on the register of members of the Company as at the Meeting Record Date shall be entitled to attend and vote, in person or by proxy, at the EGM with respect to (i) the special resolution by Shareholders to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares; (ii) the ordinary resolution by Shareholders to restore the share capital of the Company to its former amount by allotting and issuing to the Offeror the same number of the Shares as the number of Scheme Shares cancelled and extinguished; and (iii) the ordinary resolution by Independent Shareholders to approve the Rollover Arrangement.

The special resolution described under (i) in the paragraph above will be passed if not less than three-fourths of the votes cast by the Shareholders, present and voting in person or by proxy, at the EGM are in favour of the special resolution. The ordinary resolution described under (ii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Shareholders, present and voting either in person or by proxy, at the EGM. The ordinary resolution described under (iii) in the paragraph above will be passed if more votes are cast in favour of the ordinary resolution than against it by the Independent Shareholders, present and voting either in person or by proxy, at the EGM.

At the EGM, a poll will be taken and each Shareholder present and voting, either in person or by proxy, will be entitled to vote all of his/her/its Shares in favour of (or against) the special resolution and/or the ordinary resolutions. Alternatively, such Shareholder may vote some of their Shares in favour of the special resolution and/or the ordinary resolutions and any or all of the balance of their Shares against the special resolution and/or the ordinary resolutions (and vice versa).

At the EGM, the special and the ordinary resolutions will be put to the vote by way of poll as required under Rule 13.39(4) of the Listing Rules.

Notice of EGM is set out in Appendix VII to this Scheme Document. The EGM will be held at 10:30 a.m. (Hong Kong time) (or immediately after the conclusion or adjournment of the Court Meeting convened on the same day and place) on Tuesday, 18 June 2019 at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong.

Assuming that the Conditions are fulfilled (or, as applicable, waived in whole or in part), it is expected that the Scheme will become effective on or before Monday, 1 July 2019 (Cayman Islands time). Further announcements will be made including, in particular, in relation to (i) the results of the Court Meeting and the EGM and, whether all the resolutions are passed at those meetings; (ii) the result of the hearing of the petition for the sanction of the Scheme by the Grand Court; (iii) the Scheme Record Date; (iv) the Effective Date; and (v) the date of withdrawal of the listing of the Shares on the Stock Exchange as further set out in “Part III — Expected Timetable” of this Scheme Document.

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21. BENEFICIAL OWNERS

Beneficial Owners are urged to have their names entered in the register of members of the Company as soon as possible for, among other things, the following reasons:

- (a) to enable the Beneficial Owners to become Shareholders so that they can attend the Court Meeting in the capacity as members of the Company or be represented by proxies to be appointed by them and to be included for the purpose of calculating the majority in number of Shareholders as required under Section 86 of the Companies Law in their capacity as members of the Company;
- (b) to enable the Company to properly classify members of the Company as Scheme Shareholders for the purposes of Section 86 of the Companies Law; and
- (c) to enable the Company and the Offeror to make arrangements to effect payments by way of the delivery of cheques to the most appropriate person when the Scheme becomes effective.

No person shall be recognised by the Company as holding any Shares upon any trust. In the case of any Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), such Beneficial Owner should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the relevant latest time for the lodgement of forms of proxy in respect of the Court Meeting and the EGM, then any such Beneficial Owner should comply with the requirements of such Registered Owner.

Any Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited must, unless such Beneficial Owner is a person admitted to participate in CCASS as an Investor Participant, contact their broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if they wish to vote in respect of the Scheme. Beneficial Owners should contact their broker, custodian, nominee or other relevant person in advance of the deadline in respect of the Court Meeting and the EGM set by them, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM. The procedure for voting in respect of the Scheme by HKSCC Nominees Limited with respect to the Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

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22. GENERAL

Huatai Financial has been appointed as the financial adviser to the Offeror in connection with the Scheme and the Proposal.

The directors of the Company all believe that the terms of the Scheme, the Proposal and the Rollover Arrangement are fair and reasonable and in the interests of the Shareholders as a whole. The independent non-executive directors of the Company forming the Independent Board Committee, namely Mr. XIE Guoping, Mr. LOU Hetong, and Mr. ZHAO Jun, have provided their recommendation in the letter from the Independent Board Committee in Part V of this Scheme Document.

Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan, Mr. TANG Hsin-hua and Mr. WANG Yuan, being directors of the Company and who are interested in the Scheme and the Proposal have abstained from voting in respect of the board resolutions of the Company in relation to the Proposal and the Scheme.

In light of the recommendation of the Independent Board Committee as set out in Part V of this Scheme Document and the recommendation of Gram Capital as set out in Part VI of this Scheme Document, Rule 2.3 of the Takeovers Code is not applicable.

As at the Latest Practicable Date, save as disclosed in “13. Special Deal Relating to Rollover Arrangement” in this Explanatory Memorandum that each of the Participating Shareholders has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws, to exercise or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by them directly on resolutions in relation to the Scheme in accordance with the Offeror’s directions, and in the absence of any such directions, to vote in favor of all resolutions which are necessary to implement the Scheme proposed at a general or class meeting of the Company, and that each of the Participating Shareholders shall be bound by, and take all actions necessary to implement the Scheme, no person who owned or controlled Shares, Share Options or convertible securities, warrants, options or derivatives in respect of Shares had irrevocably committed themselves to the Offeror to vote their Shares in favour of or against the resolutions in respect of the Scheme at the Court Meeting or the EGM.

Associates of the Offeror or the Company (as defined in the Takeovers Code, including shareholders holding 5% or more of the relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror or the Company) are hereby reminded to disclose their dealings in any securities of the Company under Rule 22 of the Takeovers Code.

23. SUMMARY OF ACTIONS TO BE TAKEN

Independent Shareholders

A **pink** form of proxy for use at the Court Meeting and a **white** form of proxy for use at the EGM are enclosed with copies of this Scheme Document sent to Registered Owners of the Company. Subsequent purchasers of Scheme Shares will need to obtain a proxy from the transferor.

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Whether or not you are able to attend the Court Meeting and/or the EGM, if you are a Scheme Shareholder, you are strongly urged to complete and sign the enclosed **pink** form of proxy in respect of the Court Meeting, and the Shareholders are strongly urged to complete and sign the enclosed **white** form of proxy in respect of the EGM, in accordance with the instructions printed thereon, and to lodge them at the office of the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. In order to be valid, the **pink** form of proxy for use at the Court Meeting should be lodged not later than 9:30 a.m. (Hong Kong time) on Sunday, 16 June 2019, and the **white** form of proxy for use at the EGM should be lodged not later than 10:30 a.m. (Hong Kong time) on Sunday, 16 June 2019. The completion and return of a form of proxy for the Court Meeting and/or the EGM will not preclude the Independent Shareholders and/or the Shareholders from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and the EGM, you will still be bound by the outcome of such Court Meeting and the EGM, if, among other things, the resolutions are passed by the requisite majorities of Independent Shareholders or Shareholders (as the case may be). You are therefore strongly urged to attend and vote at the Court Meeting and the EGM in person or by proxy.

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019 (both days inclusive) and during such period, no transfer of Shares will be effected. In order to qualify to vote at the Court Meeting and the EGM, all transfers accompanied by the relevant share certificates must be lodged with Tricor Investor Services Limited, the Hong Kong branch share registrar of the Company at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. (Hong Kong time) on Wednesday, 12 June 2019.

An announcement will be made by the Company and the Offeror in relation to the results of the Court Meeting and the EGM. If all the resolutions are passed at those meetings, further announcement(s) will be made of the results of the Grand Court hearing of the petition to sanction the Scheme and, if the Scheme is sanctioned, the Scheme Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

Actions to be Taken by Holders through Trust or CCASS

The Company will not recognise any person as holding any Shares upon any trust. If you are a Beneficial Owner whose Shares are held upon trust by, and registered in the name of, a Registered Owner (other than HKSCC Nominees Limited), you should contact the Registered Owner and provide him, her or it with instructions or make arrangements with the Registered Owner in relation to the manner in which your Shares should be voted at the Court Meeting and/or the EGM. Such instructions and/or arrangements should be given or made in advance of the deadline in respect of the Court Meeting and the EGM set by them in order to provide the Registered Owner with sufficient time to accurately complete his, her or its proxy and to submit it by the deadline stated above. To the extent that any Registered Owner requires instructions from or arrangements to be made with any Beneficial Owner at a particular date or time in advance of the aforementioned latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, any such Beneficial Owner should comply with the requirements of such Registered Owner.

PART VII — EXPLANATORY MEMORANDUM

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are an Investor Participant, contact your broker, custodian, nominee, or other relevant person who is, or has, in turn, deposited such Shares with, another CCASS Participant regarding voting instructions to be given to such persons if you wish to vote at the Court Meeting and/or at the EGM. You should contact your broker, custodian, nominee or other relevant person in advance of the latest time for the lodgment of forms of proxy in respect of the Court Meeting and the EGM, in order to provide such broker, custodian, nominee or other relevant person with sufficient time to provide HKSCC with instructions or make arrangements with HKSCC in relation to the manner in which the Shares of the Beneficial Owner should be voted at the Court Meeting and/or the EGM.

HKSCC may also vote for and against the Scheme in accordance with instructions received from CCASS Participants (as defined under the General Rules of CCASS). The number of votes cast in favour of the Scheme and the number of CCASS Participants on whose instructions they are cast and the number of votes cast against the Scheme and the number of CCASS Participants on whose instructions they are cast will be disclosed to the Grand Court and may be taken into account in deciding whether or not the Grand Court should exercise its discretion to sanction the Scheme.

Petition hearing in the Grand Court

Prior to the despatch of this Scheme Document, the Company obtained directions from the Grand Court for the convening of the Court Meeting to consider the Scheme and other procedural matters regarding the Scheme.

In accordance with sections 14, 15 and 86 of the Companies Law, if the resolutions are approved at the Court Meeting and the EGM, the Company must then make a further application to the Grand Court to confirm the resolution reducing the share capital of the Company and to sanction the Scheme. The Company and the Offeror cannot complete the Scheme and the Proposal without obtaining these approvals. In this regard, the Company has filed a petition with the Grand Court seeking these approvals which will be heard on Friday, 28 June 2019 (Cayman Islands time).

In determining whether to exercise its discretion and sanction the Scheme, the Grand Court will determine, among other things, whether the votes cast at the Court Meeting fairly represented the decision of the Scheme Shareholders.

If the Grand Court sanctions the Scheme and if all of the other conditions to the Scheme are satisfied or (to the extent allowed by law) waived, the Company intends to file the court order sanctioning the Scheme with the Registrar of Companies in the Cayman Islands on Monday, 1 July 2019 or as otherwise directed by the Grand Court, at which time the order sanctioning the Scheme will become effective.

SHAREHOLDERS (INCLUDING ANY BENEFICIAL OWNERS OF SUCH SHARES THAT GIVE VOTING INSTRUCTIONS TO A CUSTODIAN OR CLEARING HOUSE THAT SUBSEQUENTLY VOTES AT THE COURT MEETING) SHOULD NOTE THAT THEY WILL BE ENTITLED TO APPEAR AT THE GRAND COURT HEARING EXPECTED TO BE ON FRIDAY, 28 JUNE 2019 AT WHICH THE COMPANY WILL SEEK, AMONG OTHER THINGS, THE SANCTION OF THE SCHEME.

PART VII — EXPLANATORY MEMORANDUM

24. RECOMMENDATIONS

Your attention is drawn to the following:

- (a) the letter from the Board set out in Part IV of this Scheme Document;
- (b) the letter from the Independent Board Committee set out in Part V of this Scheme Document; and
- (c) the letter from Gram Capital set out in Part VI of this Scheme Document.

25. FURTHER INFORMATION

Further information is set out in the Appendices to, and elsewhere in, this Scheme Document, all of which form part of this Explanatory Memorandum.

Shareholders should rely only on the information contained in this Scheme Document. None of the Company, the Offeror, Huatai Financial or any of their respective affiliates has authorised anyone to provide you with information that is different from what is contained in this Scheme Document.

1 FINANCIAL SUMMARY

The following summary financial information for each of the three years ended 31 December 2016, 2017 and 2018 is extracted from the audited consolidated financial statements of the Group as set forth in the annual reports of the Company for the years ended 31 December 2016, 2017 and 2018. The auditor's reports issued by Deloitte Touche Tohmatsu in respect of the Group's audited consolidated financial statements for each of the three years ended 31 December 2016, 2017 and 2018 did not contain any qualifications.

Consolidated Income Statement

	For the year ended 31 December		
	2018	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	1,458,050	1,216,593	1,236,439
Gross profit	529,760	448,659	420,721
Profit before tax	317,806	260,082	312,193
Income tax expense	65,052	44,332	59,360
Profit for the year	<u>252,754</u>	<u>215,750</u>	<u>252,833</u>
Total comprehensive income for the year	<u><u>258,984</u></u>	<u><u>211,169</u></u>	<u><u>210,039</u></u>
Profit for the year attributable to:			
Owners of the Company	251,784	214,049	257,787
Non-controlling interests	<u>970</u>	<u>1,701</u>	<u>(4,954)</u>
	<u><u>252,754</u></u>	<u><u>215,750</u></u>	<u><u>252,833</u></u>
Total comprehensive income for the year attributable to:			
Owners of the Company	257,972	209,481	213,978
Non-controlling interests	<u>1,012</u>	<u>1,688</u>	<u>(3,939)</u>
	<u><u>258,984</u></u>	<u><u>211,169</u></u>	<u><u>210,039</u></u>
Earnings per share – basic (RMB)	<u><u>0.25</u></u>	<u><u>0.21</u></u>	<u><u>0.26</u></u>
Dividends – final	<u><u>88,550</u></u>	<u><u>86,400</u></u>	<u><u>88,500</u></u>
Dividends per Share (RMB)	<u><u>0.08855</u></u>	<u><u>0.0864</u></u>	<u><u>0.0885</u></u>

There are no exceptional items because of size, nature or incidence that are required to be disclosed in the financial statements of the Group for each of the three years ended 31 December 2016, 2017 and 2018.

2 CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP

The Company is required to set out or refer to in this Scheme Document the statement of financial position, statement of cash flows and any other primary statement as shown in the last published audited accounts, together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The audited consolidated financial statements of the Company for the year ended 31 December 2018 (the “**2018 Financial Statements**”) are set out on pages 79 to 170 of the annual report of the Company for the year ended 31 December 2018 (the “**2018 Annual Report**”), which was published on 29 March 2019. The 2018 Annual Report is posted on the websites of the Stock Exchange and the Company. Please also see below a direct link to the 2018 Annual Report:

<http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0329/LTN201903291089.pdf>

The 2018 Financial Statements (but not any other part of the 2018 Annual Report in which they appear) are incorporated by reference into this Scheme Document and form part of this Scheme Document.

3 INDEBTEDNESS STATEMENT

As at the close of business on 31 March 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the publication of this Scheme Document, the Group had been granted banking facilities in the total amount of approximately RMB534 million and US\$10 million, of which approximately RMB424 million were secured by certain landed properties of the Group with a book value of approximately RMB208 million. At the close of business on 31 March 2019, approximately RMB175 million of such banking facilities were utilized by the Group.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade, bills and other payables in the ordinary course of the business of the Group, the Group did not have outstanding at the close of business on 31 March 2019 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

4 MATERIAL CHANGES

The directors of the Company confirm that, save as and except for the below there was no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

- (i) The Group’s revenue and gross profit for the three months ended 31 March 2019 (“**1Q19**”) increased by approximately 44% and 52% respectively as compared to the corresponding period in 2018 (“**1Q18**”).

- (ii) The profit attributable to the owners of the Company for 1Q19 increased by approximately 70% as compared to 1Q18, mainly due to the aforesaid increases in the Group's revenue and gross profit.

- (iii) The European Union (the "EU") Commission (the "**EU Commission**") published a notice on 21 February 2019 to initiate an anti-dumping investigation (the "**Investigation**") against glass fiber fabrics originating in China and Egypt. Two of the Company's subsidiaries (the "**Subsidiaries Concerned**") are considered as exporting producers under the Investigation and hence selected and included as samples under the Investigation. Based on the preliminary statistics of the internal management accounts of the Group, all products sold by the Subsidiaries Concerned to the EU may be identified as product under investigation. As of the Latest Practicable Date, the Investigation is ongoing. If the conclusion on the Investigation to be drawn by the European Commission is affirmative or provisional measures are imposed during the Investigation, the EU's import tariff on the product under investigation will increase, which may have certain effect on the sales of the Group's corresponding products in the EU in the future. Further details regarding the Investigation is set out under the Company's announcement dated 25 February 2019.

The statements set out in (i) and (ii) above constitute profit forecast under Rule 10 of the Takeovers Code. Please refer to Appendices II and III of the Scheme Document for the reports issued in respect of such statements from Linkers CPA Limited and Gram Capital respectively.

The following is the text of a letter received from Linkers CPA Limited, for inclusion in this Scheme Document.

27 May 2019

The Board of Directors
China Hengshi Foundation Company Limited
19/F, Three Exchange Square
8 Connaught Place, Central
Hong Kong

Dear Sirs,

CHINA HENGSHI FOUNDATION COMPANY LIMITED (“THE COMPANY”) AND ITS SUBSIDIARIES (COLLECTIVELY REFERRED TO AS THE “GROUP”)

Profit estimate for the three months ended 31 March 2019

We refer to the statement as set out on pages I-2 to I-3 of the Scheme Document of the Company dated 27 May 2019 (the “**Profit Estimate**”) as below:

- “(i) The Group’s revenue and gross profit for the three months ended 31 March 2019 (“1Q19”) increased by approximately 44% and 52% respectively as compared to the corresponding period in 2018 (“1Q18”).*
- “(ii) The profit attributable to the owners of the Company for 1Q19 increased by approximately 70% as compared to 1Q18, mainly due to the aforesaid increases in the Group’s revenue and gross profit.”*

Directors’ Responsibilities

We have been advised by the directors of the Company that the Profit Estimate is prepared based on the unaudited consolidated management accounts of the Group for the three months ended 31 March 2019.

The Company’s directors are solely responsible for the Profit Estimate.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "*Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*" and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*" issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2018.

Yours faithfully,

LINKERS CPA LIMITED

Certified Public Accountants

Engagement Director: LEUNG WAI YUNG

Practising Certificate Number: P05194

Hong Kong, 27 May 2019

The following is the text of a report received from Gram Capital, for inclusion in the Scheme Document.

27 May 2019

The Board of Directors

China Hengshi Foundation Company Limited
19th Floor
Three Exchange Square
8 Connaught Place
Central, Hong Kong

Dear Sir/Madam,

Reference is made to the Scheme Document dated 27 May 2019 issued by the Company. Capitalised terms used in this letter shall have the same respective meanings as defined in the Scheme Document unless the context otherwise required.

We refer to the below statements made by the Company on pages I-2 to I-3 of the Scheme Document (the “**Profit Estimates**”):

- (i) The Group’s revenue and gross profit for the three months ended 31 March 2019 (“**1Q19**”) increased by approximately 44% and 52% respectively as compared to the corresponding period in 2018 (“**1Q18**”).
- (ii) The profit attributable to the owners of the Company for 1Q19 increased by approximately 70% as compared to 1Q18, mainly due to the aforesaid increases in the Group’s revenue and gross profit.

The Profit Estimates constitute profit forecast under Rule 10 of the Takeovers Code and must be reported on by the financial adviser and the auditors or consultant accountants. This report is issued in compliance with the requirements under Rule 10.4 and Note 1(c) to Rules 10.1 and 10.2 of the Takeovers Code.

The Directors prepared the Profit Estimates based on the unaudited consolidated management accounts of the Group for 1Q19 with comparative figures for 1Q18 (the “**Mgt Account & Comparative Figures**”). The Mgt Account & Comparative Figures are prepared on a basis consistent in all material respects with the accounting policies normally adopted by the Company as set out in the annual report of the Company for the year ended 31 December 2018 (the “**Bases**”). No assumption was involved in the making of the Profit Estimates as the Profit Estimates relate to a period already ended.

We have reviewed the Profit Estimates, the Mgt Account & Comparative Figures and the Bases which were provided by you and you as the Directors are solely responsible for. We also discussed the above with you and the senior management of the Company.

In respect of the accounting policies and calculations concerned, upon which the Profit Estimates have been made, we have considered the report as contained in Appendix II to the Scheme Document addressed to the Board from Linkers CPA Limited, being the consultant accountant of the Company. Linkers CPA Limited is of the opinion that so far as the accounting policies and calculations are concerned, the Profit Estimates have been properly compiled in accordance with the bases adopted by the Directors and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the annual report of the Company for the year ended 31 December 2018.

Having considered the above, we are of the opinion that the Profit Estimates (including the Bases) have been made with due care and consideration.

We hereby give and have not withdrawn our consent to the issue of the Scheme Document with the inclusion therein of this report.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

1 RESPONSIBILITY STATEMENTS

The information contained in this Scheme Document relating to the Group has been supplied by the Company. The issue of this Scheme Document has been approved by the directors of the Company, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

The information contained in this Scheme Document relating to the Offeror and the Offeror Concert Parties has been supplied by the Offeror and Zhenshi Holding. The issue of this Scheme Document has been approved by the directors of the Offeror and the directors of Zhenshi Holding, who jointly and severally accept full responsibility for the accuracy of the information contained in this Scheme Document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in this Scheme Document, the omission of which would make any statement in this Scheme Document misleading.

2 SHARE CAPITAL

As at the Latest Practicable Date:

- (a) the authorised share capital of the Company was US\$2,000,000 divided into 2,000,000,000 Shares, and the Company has 1,000,000,000 Shares in issue;
- (b) all of the Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting; and
- (c) as at the Latest Practicable Date, there are no outstanding warrants, derivatives or other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) issued by the Company that carry a right to subscribe for or which are convertible into Shares.

3 MARKET PRICE

The table below sets out the closing price of the Shares on the Stock Exchange on (i) the Latest Practicable Date; (ii) the Last Trading Day; (iii) the last trading day immediately preceding the date of the announcement jointly issued by the Offeror and the Company on 4 April 2019 (being 1 April 2019); and (iv) the last Business Day of each of the calendar months during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date:

	Closing price for each Share (HK\$)
31 October 2018	1.98
30 November 2018	1.71
31 December 2018	1.90
31 January 2019	2.14
28 February 2019	2.17
29 March 2019 (Last Trading Day)	2.26
1 April 2019	2.31
30 April 2019	2.40
24 May 2019 (Latest Practicable Date)	2.36

The lowest and highest closing prices of Shares as quoted on the Stock Exchange during the period commencing six months preceding the Offer Period Commencement Date and ending on the Latest Practicable Date were HK\$1.71 on 22 November 2018, 23 November 2018, 26 November 2018, 27 November 2018, 28 November 2018, 29 November 2018, 30 November 2018, 3 December 2018 and 4 December 2018, and HK\$2.47 per Share on 6 May 2019 and 7 May 2019, respectively.

The Cancellation Price of HK\$2.50 per Scheme Share represents a premium of approximately 10.62% over the closing price of HK\$2.26 per Share as quoted on the Stock Exchange on 29 March 2019 (being the Last Trading Day).

4 DISCLOSURE OF INTERESTS

For the purpose of this paragraph, “interested” and “interests” have the same meanings as given to them in the appropriate part of the SFO.

(a) Interests and dealings in Shares

- (i) As at the Latest Practicable Date, the Offeror and Offeror Concert Parties had the following interests in Shares:

Shareholders	As at the Latest Practicable Date	
	Number of Shares	%
Offeror		
Heshi ¹	—	—
Offeror Concert Parties		
— Huachen Investment Limited ²	329,602,500	32.96
— Huakai Investment Limited ³	131,015,500	13.10
— Trade Power Investments Limited ⁴	225,000,000	22.50
— Joyfar Limited ⁵	75,000,000	7.50
— Mr. CAO Guorong ⁶	33,902,000	3.39
Aggregate number of Shares of the Offeror and the Offeror Concert Parties	<u>794,520,000</u>	<u>79.45</u>
Independent Shareholders	<u>205,480,000</u>	<u>20.55</u>
Total	<u><u>1,000,000,000</u></u>	<u><u>100.00</u></u>
Total number of Scheme Shares	205,480,000	20.55

Notes:

- Heshi is wholly owned by Zhenshi Holding which is in turn, owned by Mr. ZHANG Yuqiang, Tongxiang Wushi Trading Co., Ltd.* (桐鄉務石貿易有限公司, a company wholly owned by Mr. ZHANG Jiankan), Mr. ZHANG Zhiqiang, Mr. ZHOU Senlin and Mr. YANG Guoming as to 70.28%, 25.23%, 2.03%, 1.8% and 0.66% respectively.
- Huachen Investment Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, beneficially owned as to 95.95% by Mr. ZHANG Yuqiang, the controlling shareholder, a non-executive director and the chairman of the Company, and as to 2.77% by Mr. ZHANG Zhiqiang, 0.37% by Mr. ZHOU Senlin and 0.90% by Mr. YANG Guoming, respectively. Mr. ZHANG Yuqiang is a director of Huachen Investment Limited and is deemed to be acting in concert with Huachen Investment Limited pursuant to the definition of “Acting in concert” set out in the Takeovers Code. In addition, he is a director of the Offeror and deemed to be acting in concert with the Offeror pursuant to the definition of “Acting in concert” set out in the Takeovers Code. Accordingly, Huachen Investment Limited is deemed to be acting in concert with the Offeror.
- Huakai Investment Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, and 100% beneficially owned by Mr. ZHANG Jiankan, a non-executive Director and the son of Mr. ZHANG Yuqiang. Mr. ZHANG Jiankan is a director of Huakai Investment Limited and is deemed to be acting in concert with Huakai Investment Limited pursuant to the definition of “Acting in concert” set out in the Takeovers Code. In addition, he is a

director of the Offeror and deemed to be acting in concert with the Offeror pursuant to the definition of “Acting in concert” set out in the Takeovers Code. Accordingly, Huakai Investment Limited is deemed to be acting in concert with the Offeror.

4. Trade Power Investments Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, and is 100% owned by Soar City Investments Limited, which is in turn 100% owned by Mr. TANG Hsin-hua, a non-executive director of the Company.
 5. Joyfar Limited is a company incorporated under the laws of the British Virgin Islands with limited liability, and is 100% owned by Top Way Alliance Limited, which is in turn 100% owned by Mr. FANG Yan Zau Alexander.
 6. Mr. CAO Guorong, who owns 3.39% Shares of the Company, is a deputy general manager of China Jushi Co., Ltd. (中國巨石股份有限公司) and a vice president of its wholly-owned PRC subsidiary Jushi Group Co., Ltd. (巨石集團有限公司). China Jushi Co., Ltd. is a joint stock company incorporated in the PRC with limited liability whose shares have been listed on the Main Board of the Shanghai Stock Exchange, in which Zhenshi Holding holds 15.59% equity interest.
 7. All percentages in the above table are approximations rounded to two decimal places.
- (ii) There are no dealings in the Shares for value during the Disclosure Period by the Offeror and the Offeror Concert Parties.
 - (iii) During the Disclosure Period, no dealing in Shares for value has been conducted by Huatai Financial as a group (other than exempt principal traders), for its own account or on a discretionary basis.
 - (iv) During the Disclosure Period, there are no options, warrants or convertible securities in respect of the Shares held, controlled or directed by the Offeror or the Offeror Concert Parties, or outstanding derivatives in respect of the Shares entered into by the Offeror or the Offeror Concert Parties.
 - (v) None of the Offeror, Offeror Concert Parties and any person who prior to the posting of this Scheme Document has irrevocably committed itself to accept or reject the Proposal, had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.
 - (vi) As at the Latest Practicable Date, no subsidiary of the Company, pension fund of the Company or of any subsidiary of the Company or adviser of the Company as specified in class (2) of the definition of associate under the Takeovers Code (other than exempt principal traders) owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of any Shares. During the period commencing on the Offer Period Commencement Date and up to the Latest Practicable Date, no such person had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
 - (vii) As at the Latest Practicable Date, save as disclosed in “12. Information on the Offeror” and “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Offeror (or with Offeror Concert Parties) and save as disclosed in paragraphs 4(a)(i) of this section, no such person owned or controlled any Shares or any convertible securities, warrants,

options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares during the Disclosure Period.

- (viii) As at the Latest Practicable Date, save as disclosed in “12. Information on the Offeror” and “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, no person had any arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the Shares with the Company (or with any person who is an associate of the Company by virtue of class (1) to (4) of the definition of “associate” under the Takeovers Code). During the Disclosure Period, save as disclosed in paragraphs 4(a)(i) of this section, no such person owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (ix) As at the Latest Practicable Date, save as disclosed in paragraph 4(a)(i) of this section and the table below, none of the directors of the Company had any interest in the Shares or any convertible securities, warrants, options or derivatives in respect of the Shares:

Director of the Company	Number of Shares held	Approximate percentage of total issued share capital of the Company (%)
ZHANG Yuqiang	329,602,500 ⁽¹⁾	32.96
ZHANG Jiankan	131,015,500 ⁽²⁾	13.10
TANG Hsin-hua	225,000,000 ⁽³⁾	22.50

Notes:

- (1) Shares owned by Mr. ZHANG Yuqiang consist of 329,602,500 Shares held by Huachen Investment Limited, a company wholly owned by Mr. ZHANG Yuqiang.
- (2) Shares owned by Mr. ZHANG Jiankan consist of 131,015,500 Shares held by Huakai Investment Limited, a company wholly owned by ZHANG Jiankan.
- (3) Shares owned by Mr. TANG Hsin-hua consist of 225,000,000 Shares held by Trade Power Investments Limited, a company wholly owned by Mr. TANG Hsin-hua through Soar City Investments Limited.
- (4) None of the Shares held by Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan and Mr. TANG Hsin-hua will constitute Scheme Shares or be voted on the Scheme at the Court Meeting.
- (x) Save as disclosed in paragraph 4(a)(i) of this section, none of the Offeror and its directors owned or controlled any Shares or convertible securities, warrants, options or derivatives in respect of the Shares as at the Latest Practicable Date. During the Disclosure Period, none of the Offeror and its directors had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.

- (xi) As at the Latest Practicable Date, none of the Offeror, the Offeror Concert Parties, the Company or the directors of the Company had borrowed or lent any Shares.
- (xii) As at the Latest Practicable Date, no fund managers connected with the Company who managed funds on a discretionary basis had owned or controlled any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares. During the Disclosure Period, no fund managers connected with the Company who managed funds on a discretionary basis had dealt for value in any Shares or any convertible securities, warrants, options or derivatives in respect of the Shares.
- (xiii) As Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan and Mr. TANG Hsin-hua are regarded as acting in concert with the Offeror, they will abstain from voting on the Scheme at the Court Meeting. The remaining directors of the Company did not own any beneficial shareholding in Shares as at the Latest Practicable Date.

(b) Interests and dealings in the Offeror's shares

Save as disclosed in “12. Information on the Offeror” in the Explanatory Memorandum, the Company and its directors had no interest in the Offeror's shares or convertible securities, warranties, options or derivatives in respect of the Offeror's shares as at the Latest Practicable Date. During the Disclosure Period, neither of the Company nor its directors had dealt for value in any such shares or any convertible securities, warranties, options or derivatives in respect of the Offeror's shares.

(c) Arrangements with the Offeror and Offeror Concert Parties in respect of the Proposal

As at the Latest Practicable Date:

- (i) save as disclosed in “12. Information on the Offeror” and “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, there were no arrangements of the kind referred to in Note 8 to Rule 22 of the Takeovers Code exist between the Offeror or Offeror Concert Parties and any other person;
- (ii) there was no agreement or arrangement to which Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme; and
- (iii) save as disclosed in “12. Information on the Offeror” and “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror upon completion of the Scheme and the Offeror has no intention to transfer, charge or pledge any Shares in the Company acquired pursuant to the Scheme to any other person.

(d) Other interests

As at the Latest Practicable Date:

- (i) no benefit is or will be paid/given to any director of the Company as compensation for loss of office or otherwise in connection with the Scheme;
- (ii) save as disclosed in “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or Offeror Concert Parties and any of the directors of the Company, recent directors of the Company, Shareholders or recent shareholders of the Company having any connection with or dependence upon the Scheme;
- (iii) save as disclosed in “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, there was no agreement or arrangement between any director of the Company and any other person which is conditional on or dependent upon the outcome of or otherwise connected with the Scheme;
- (iv) save as disclosed in “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum, no material contract has been entered into by the Offeror in which any director of the Company has a material personal interest; and
- (v) save for the service contracts set out below, no other directors of the Company has a service contract with any member of the Group or associated companies of the Company in force which (i) (including both continuous and fixed term contracts) has been entered into or amended within six months before the Offer Period Commencement Date; or (ii) is continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract that has more than 12 months to run irrespective of the notice period.

Name of director	Date of service contract	Earlier service contracts		Date of service contract	Current service contracts	
		Expiry date of service contract	Remuneration		Expiry date of service contract	Remuneration
ZHANG Yuqiang	30 November 2015	23 February 2018	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).	30 November 2018	Date of the annual general meeting to be held in 2019; and if approved by the above annual general meeting, 30 November 2021.	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).
			For the years ended 31 December 2015, 31 December 2016 and 31 December 2017, he received a director's fee of RMB1,750,000, RMB3,000,000 and RMB3,000,000 respectively.			For the year ended 31 December 2018, he received a director's fee of RMB3,000,000. For the year ending 31 December 2019, the agreed director's fee is RMB3,000,000.
ZHANG Jiankan	30 November 2015	23 February 2018	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).	30 November 2018	Date of the annual general meeting to be held in 2019; and if approved by the above annual general meeting, 30 November 2021.	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).

Name of director	Date of service contract	Earlier service contracts		Date of service contract	Current service contracts	
		Expiry date of service contract	Remuneration		Expiry date of service contract	Remuneration
			For the year ended 31 December 2017, he received a director's fee of RMB356,000. For the years ended 31 December 2015 and 31 December 2016, he did not receive any remuneration.			For the year ended 31 December 2018, he received a director's fee of RMB694,000. For the year ending 31 December 2019, the agreed monthly basic salary is RMB44,500, plus a discretionary bonus to be determined.
TANG Hsin-hua	30 November 2015	5 May 2018	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).	30 November 2018	Date of the annual general meeting to be held in 2019; and if approved by the above annual general meeting, 30 November 2021.	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).
			For the year ended 31 December 2015, 31 December 2016 and 31 December 2017, he did not receive any remuneration.			For the year ended 31 December 2018, he did not receive any remuneration. For the year ending 31 December 2019, it has been agreed that he will not receive any compensation.

Name of director	Date of service contract	Earlier service contracts		Date of service contract	Current service contracts	
		Expiry date of service contract	Remuneration		Expiry date of service contract	Remuneration
WANG Yuan	30 November 2015	5 May 2018	<p>The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).</p> <p>For the year ended 31 December 2017, he received a director's fee of RMB346,000. For the years ended 31 December 2015 and 31 December 2016, he did not receive any remuneration.</p>	30 November 2018	Date of the annual general meeting to be held in 2019; and if approved by the above annual general meeting, 30 November 2021.	<p>The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).</p> <p>For the year ended 31 December 2018, he received a director's fee of RMB693,000.</p> <p>For the year ending 31 December 2019, the agreed monthly basic salary is RMB44,500, plus a discretionary bonus to be determined.</p>
YIN Hang	N/A	N/A	N/A	9 May 2019	9 May 2022	<p>The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).</p> <p>For the year ending 31 December 2019, the agreed monthly basic salary is RMB34,000, plus a discretionary bonus to be determined.</p>

Name of director	Date of service contract	Earlier service contracts		Date of service contract	Current service contracts	
		Expiry date of service contract	Remuneration		Expiry date of service contract	Remuneration
HUANG Junjun	30 November 2015	5 May 2018	The Company shall pay him an annual salary agreed between him and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).	30 November 2018	Date of the annual general meeting to be held in 2019; if approved by the above annual general meeting, 30 November 2021.	The Company shall pay her an annual salary agreed between her and the Company, subject to review and adjustment by the Board after the end of each appointment year (but not within the first year of appointment).
			For the year ended 31 December 2015, 31 December 2016 and 31 December 2017, he received a total remuneration of RMB410,000, RMB522,000, RMB704,000 respectively.			For the year ended 31 December 2018, she received a total remuneration of RMB588,000.
						For the year ending 31 December 2019, the agreed monthly basic salary is RMB40,000, plus a discretionary bonus to be determined.

Name of director	Date of letter of appointment	Current letters of appointment	
		Expiry date of letter of appointment	Remuneration
XIE Guoping	22 May 2017	Until termination by the Company or by him by serving a written notice of no less than one month, subject to retirement every three years.	Fixed remuneration of RMB120,000 per year (tax included).
LOU Hetong	6 March 2018	Upon election at the first annual general meeting of the Company following the execution of the letter of appointment, until termination by the Company or by him by serving a written notice of no less than one month, subject to retirement every three years.	Fixed remuneration of RMB120,000 per year (tax included).
ZHAO Jun	6 March 2018	Upon election at the first annual general meeting of the Company following the execution of the letter of appointment, until termination by the Company or by him by serving a written notice of no less than one month, subject to retirement every three years.	Fixed remuneration of RMB120,000 per year (tax included).

5 MATERIAL LITIGATION

As at the Latest Practicable Date, there was no material litigation or claim of material importance known to the directors of the Company to be pending or threatened against any member of the Group.

6 MATERIAL CONTRACTS

No material contracts (not being contracts entered into in the ordinary course of business carried on or intended to be carried or by the Company or any of its subsidiaries) have been entered into by the Company or any of its subsidiaries during the period beginning from two years prior to the Offer Period Commencement Date up to and including the Latest Practicable Date.

7 EXPERT

The following are the qualifications of each of the experts who has given opinions or advice which are contained in this Scheme Document:

Name	Qualifications
Huatai Financial	a licensed corporation under the SFO, licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in future contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Gram Capital	a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
Linkers CPA Limited	Certified Public Accountants

8 CONSENTS

Each of the experts mentioned above has given and has not withdrawn its written consent to the issue of this Scheme Document with the inclusion therein of the opinions and/or letters and/or the references to its name and/or opinions and/or letters in the form and context in which they respectively appear.

9 MISCELLANEOUS

(a) The directors of the Company are:

Non-executive directors:

Mr. ZHANG Yuqiang (*Chairman of the Board*)

Mr. ZHANG Jiankan

Mr. TANG Hsin-hua

Mr. WANG Yuan

Executive directors:

Mr. YIN Hang

Ms. HUANG Junjun

Independent non-executive directors:

Mr. XIE Guoping

Mr. LOU Hetong

Mr. ZHAO Jun

(b) The joint company secretaries of the Company are Mr. YIN Hang and Mr. LUI Chi Ho.

(c) The registered office of the Company is situated at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

- (d) The principal place of business of the Company in Hong Kong is at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong.
- (e) The head office of the Company is situated at No. 1 Guang Yun South Road, Tongxiang Economic Development Zone, Tongxiang, Zhejiang Province, PRC.
- (f) The principal share registrar of the Company is Intertrust Corporate Services (Cayman) Limited at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.
- (g) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (h) Heshi is a company incorporated under the laws of Hong Kong on 12 June 2009 with limited liability. Its registered office is situated at Flat/Rm 2103, Tung Chiu Commercial Centre, 193 Lockhart Road, Wan Chai, Hong Kong.
- (i) The directors of the Offeror are: Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan and Mr. YIN Hang. The directors of Zhenshi Holding are: Mr. ZHANG Yuqiang, Mr. ZHANG Jiankan and Mr. WANG Yuan.
- (j) The address of ZHANG Yuqiang is No. 12 Xueqian Road, Wutong Street, Tongxiang, Zhejiang Province, PRC.
- (k) The address of ZHANG Jiankan is No. 12 Xueqian Road, Wutong Street, Tongxiang, Zhejiang Province, PRC.
- (l) The address of TANG Hsin-hua is 10th Floor, Building No. 1, No. 195 Guangfu North Road, 31 Lin, Dongrongli, Songshan District, Taipei, Taiwan.
- (m) The address of WANG Yuan is Room 501, Unit 1, Building 8, No. 2 Xuguangli, Qinhuai District, Nanjing, Jiangsu Province, PRC.
- (n) The address of YIN Hang is Room 405, Building M, Commercial Street, Zhenxing West Road, Wutong Street, Tongxiang, Zhejiang Province, PRC.
- (o) The address of HUANG Junjun is Suite 601, Unit 2, Block 2, Qinyuan, Liuying Garden, Fuxing South Road, Wutong Street, Tongxiang, Zhejiang Province, PRC.
- (p) The address of XIE Guoping is No. 335 Tiyuchang Road, Xiacheng District, Hangzhou, Zhejiang Province, PRC.
- (q) The address of LOU Hetong is Room 603, No. 5, 408 Nong, East Tiyuhui Road, Hongkou District, Shanghai, PRC.
- (r) The address of ZHAO Jun is No. 11, Xiaofangjia Hutong, Dongcheng District, Beijing, PRC.

- (s) The registered office of Huachen Investment Limited is Intershore Chambers, Road Town, Tortola, British Virgin Islands. The correspondence address of Huachen Investment Limited is No. 288, Phoenix Lake Road, Tongxiang, Zhejiang Province, PRC. The sole director of Huachen Investment Limited is Mr. ZHANG Yuqiang.
- (t) The registered office of Huakai Investment Limited is Intershore Chambers, Road Town, Tortola, British Virgin Islands. The correspondence address of Huakai Investment Limited is No. 288, Phoenix Lake Road, Tongxiang, Zhejiang Province, PRC. The sole director of Huakai Investment Limited is Mr. ZHANG Jiankan.
- (u) The registered office of Trade Power Investments Limited is P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands. The correspondence address of Trade Power Investments Limited is No. 288, Phoenix Lake Road, Tongxiang, Zhejiang Province, PRC. The sole director of Trade Power Investments Limited is Mr. TANG Hsin-hua. The sole director of Soar City Investments Limited, the parent company of Trade Power Investments Limited, is Mr. TANG Hsin-hua.
- (v) The registered office of Joyfar Limited is Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The correspondence address of Joyfar Limited is Suite 2701, One Exchange Square, Central, Hong Kong. The sole director of Joyfar Limited is Mr. FANG Yan Zau Alexander. The sole director of Top Way Alliance Limited, the parent company of Joyfar Limited, is Mr. FANG Yan Zau Alexander.
- (w) The address of Mr. CAO Guorong is Room 402, Building 9, Binhe Nanyuan, Wutong Street, Tongxiang, Zhejiang Province, PRC.
- (x) The principal place of business of Huatai Financial is at Unit 5801-05 & 08-12, 58/F, The Center, 99 Queen's Road Central, Hong Kong.
- (y) The principal place of business of Gram Capital is at Room 1209, 12/F, Nan Fung Tower, 173 Des Voeux Road Central, Central, Hong Kong.

10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of the Company, 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong from 9:30 a.m. to 5:30 p.m., Monday to Friday and on the website of the Company at www.chinahengshi.com.cn and the website of SFC at www.sfc.hk from the despatch of this Scheme Document until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) the memorandum and articles of association of the Company;
- (b) the memorandum and articles of association of Heshi;
- (c) the annual report of the Company for the year ended 31 December 2018;
- (d) the annual report of the Company for the year ended 31 December 2017;

- (e) the annual report of the Company for the year ended 31 December 2016;
- (f) the letter from the Board, the text of which is set out in Part IV of this Scheme Document;
- (g) the letter from the Independent Board Committee, the text of which is set out in Part V of this Scheme Document;
- (h) the letter from Gram Capital, the text of which is set out in Part VI of this Scheme Document;
- (i) the letter from Linkers CPA Limited, the text of which is set out in “Appendix II — Letter from Linkers CPA Limited on the Profit Estimates” to this Scheme Document;
- (j) the report from Gram Capital, the text of which is set out in “Appendix III — Letter from Gram Capital on the Profit Estimates” to this Scheme Document;
- (k) written consents referred to in the section headed “8. Consents” in “Appendix IV — General Information on the Company and the Offeror” to this Scheme Document;
- (l) the Rollover Agreement referred to in the section headed “13. Special Deal Relating to Rollover Arrangement” in the Explanatory Memorandum;
- (m) the service contracts referred to in the section headed “4. Disclosure of Interests — (d) Other interests” in “Appendix IV — General Information on the Company and the Offeror” to this Scheme Document; and
- (n) this Scheme Document.

IN THE GRAND COURT OF THE CAYMAN ISLANDS

CAUSE NO. FSD77 OF 2019 (RMJ)

IN THE MATTER OF
CHINA HENGSHI FOUNDATION COMPANY LIMITED
AND IN THE MATTER OF
SECTION 86 OF THE COMPANIES LAW (2018 REVISION)
OF THE CAYMAN ISLANDS

SCHEME OF ARRANGEMENT

between

CHINA HENGSHI FOUNDATION COMPANY LIMITED

and

THE HOLDERS OF SCHEME SHARES

(as hereinafter defined)

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set out opposite them:

“acting in concert”	has the meaning ascribed to it in the Takeovers Code
“Business Day”	a day other than a Saturday, Sunday or a public holiday in Hong Kong or the Cayman Islands
“Cancellation Price”	the cancellation price of HK\$2.50 per Scheme Share payable in cash by the Offeror to the Scheme Shareholders pursuant to the Scheme
“Cayman Islands Grand Court”	the Grand Court of the Cayman Islands
“Companies Law”	the Companies Law Cap. 22 (Law 3 of 1961), as consolidated and revised, of the Cayman Islands
“Company”	China Hengshi Foundation Company Limited (中國恒石基業有限公司), an exempted company incorporated in the Cayman Islands with limited liability, the ordinary shares of which are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited

“Director”	a director of the Company
“Effective Date”	the date on which the Scheme, if approved and sanctioned by the Cayman Islands Grand Court, becomes effective in accordance with its terms and the Cayman Islands Companies Law, being the date on which a copy of the Order of the Cayman Islands Grand Court sanctioning the Scheme is delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to section 86(3) of the Companies Law, and which is expected to be Monday, 1 July 2019 (Cayman Islands time)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	24 May 2019, being the latest practicable date for ascertaining certain information contained in the Scheme Document
“Offeror”	Zhenshi Group (HK) Heshi Composite Materials Co., Limited, a company incorporated in Hong Kong with limited liability wholly-owned by Zhenshi Holding Group Co., Ltd. (振石控股集團有限公司)
“Offeror Concert Parties”	Parties acting in concert or presumed to be acting in concert with the Offeror under the definition of “acting in concert” under the Takeovers Code, including Huachen Investment Limited, Huakai Investment Limited and the Participating Shareholders
“Participating Shareholders”	Trade Power Investments Limited, Joyfar Limited and Mr. CAO Guorong
“Record Date”	Monday, 1 July 2019, or such other time and date as shall have been announced to holders of Shares, being the record date for the purpose of determining the entitlements of Scheme Shareholders under the Scheme
“Record Time”	4:30 p.m. (Hong Kong time) on the Record Date
“Register”	the principal or branch register of members of the Company (as the case may be)

- | | |
|------------------------------|--|
| “Scheme” | a scheme of arrangement under section 86 of the Companies Law involving the cancellation of all the Scheme Shares and reduction of share capital and the restoration of the share capital of the Company to the amount immediately before such cancellation and reduction of share capital |
| “Scheme Document” | this composite scheme document, including each of the letters, statements, appendices and notices in it |
| “Scheme Shareholders” | holder(s) of Scheme Shares as at the Record Time |
| “Scheme Shares” | Share(s) other than those held directly or indirectly by the Offeror Concert Parties as at the Record Time on the Record Date |
| “Share(s)” | ordinary share(s) of US\$0.001 each in the share capital of the Company |
| “Shareholders” | the holders of the Shares |
| “Takeovers Code” | The Code on Takeovers and Mergers of Hong Kong |
- (B) The Company was incorporated as an exempted company in the Cayman Islands under the Companies Law, whose shares have been listed on the Main Board of the Stock Exchange since 21 December 2015.
- (C) The authorized share capital of the Company as at the Latest Practicable Date was US\$2,000,000 divided into 2,000,000,000 Shares of which 1,000,000,000 Shares were issued and fully paid, with the remainder being unissued.
- (D) The Offeror has proposed the privatisation of the Company by way of the Scheme.
- (E) The primary purpose of the Scheme is that all of the Scheme Shares should be cancelled and extinguished and that the Company should become wholly-owned by the Offeror and the Offeror Concert Parties.

- (F) On the Latest Practicable Date, the Offeror does not hold any shares and 794,520,000 Shares are legally and/or beneficially owned by the Offeror Concert Parties and registered as follows:

Shareholders	As at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>%</i>
Huachen Investment Limited	329,602,500	32.96
Huakai Investment Limited	131,015,500	13.10
Trade Power Investments Limited	225,000,000	22.50
Joyfar Limited	75,000,000	7.50
Mr. CAO Guorong	33,902,000	3.39
Subtotal	794,520,000	79.45
Holders of Scheme Shares (“Scheme Shareholders”)	205,480,000	20.55
Total Shares in issue	1,000,000,000	100

- (G) The Offeror Concert Parties will procure that any Shares in respect of which they are beneficially interested will not be represented or voted at the meeting convened at the direction of the Cayman Islands Grand Court for the purpose of considering and, if thought fit, approving the Scheme.
- (H) The Offeror and the Offeror Concert Parties have undertaken to the Cayman Islands Grand Court to be bound by the Scheme, and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme.

THE SCHEME**PART I****Cancellation of the Scheme Shares**

1. On the Effective Date:
 - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon such reduction of capital taking effect, the share capital of the Company will be increased to its former amount by issuing to the Offeror the same number of Shares as the number of Scheme Shares cancelled and extinguished; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the capital reduction referred to in paragraph 1(a) above in paying up in full at par the new Shares issued to the Offeror, credited as fully paid.

PART II**Consideration for the cancellation and extinguishment of the Scheme Shares**

2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall pay or cause to be paid to each Scheme Shareholder the Cancellation Price.

PART III**General**

3.
 - (a) As soon as possible and in any event not later than seven (7) Business Days after the Effective Date, the Offeror shall send or cause to be sent to Scheme Shareholders cheques in respect of the sums payable to such Scheme Shareholders pursuant to Clause 2 of this Scheme.
 - (b) Unless otherwise indicated in writing to the branch share registrar of the Company in Hong Kong, being Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing on the Register at the Record Time or, in the case of joint holders, at the address as appearing on the Register at the Record Time of the joint holder whose name then stands first in the Register in respect of the relevant joint holding.
 - (c) Cheques shall be posted at the risk of the addressee and neither the Offeror nor the Company shall be responsible for any loss or delay in the transmission of the same.

- (d) Each cheque shall be payable to the order of the person to whom, in accordance with the provisions of paragraph (b) of this Clause 3, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
 - (e) On or after the day being six (6) calendar months after the posting of the cheque pursuant to paragraph (b) of this Clause 3, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not been encashed or that has been returned uncashed and shall place all monies represented thereby in a deposit account of the Offeror with a licensed bank of Hong Kong selected by the Company. The Offeror shall hold such monies on trust for those entitled to it under the terms of this Scheme until the expiration of six years from the Effective Date and shall, prior to such date, make payments thereof of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Offeror that they are respectively entitled thereto and the cheques referred to in paragraphs (b) of this Clause 3 of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
 - (f) On the expiration of six (6) years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under this Scheme.
 - (g) Paragraph (f) of this Clause 3 shall take effect subject to any prohibition or condition imposed by law.
 - (h) Upon cancellation of the Scheme Shares, the Register shall be updated to reflect such cancellation.
4. Each instrument of transfer and certificate existing at the Record Time in respect of a holding of any number of Scheme Shares shall on the Effective Date cease to be valid for any purpose as an instrument of transfer or a certificate for such Scheme Shares and every holder of such certificate shall be bound at the request of the Offeror to deliver up the same to the Offeror for the cancellation thereof.
 5. All mandates or relevant instructions to the Company in force at the Record Time relating to any of the Scheme Shares shall cease to be valid as effective mandates or instructions on the Effective Date.
 6. This Scheme shall become effective as soon as a copy of the order of the Cayman Islands Grand Court sanctioning this Scheme under Section 86 of the Companies Law has been delivered to the Registrar of Companies in the Cayman Islands for registration pursuant to Section 86(3) of the Companies Law.
 7. Unless this Scheme shall have become effective on or before 31 December 2019, or such later dates as the Company and the Offeror may agree, or as the Cayman Islands Grand Court, on application of the Company and/or the Offeror may allow, this Scheme shall lapse.

8. The Company and the Offeror may consent jointly for and on behalf of all concerned to any modification of or addition to this Scheme or to any condition that the Cayman Islands Grand Court may think fit to approve or impose.

9. Subject to the requirement of the Takeovers Code, all costs, charges and expenses of the advisers and counsels appointed by the Company, will be borne by the Company, all costs, charges and expenses of the advisers and counsels appointed by the Offeror will be borne by the Offeror, and other costs, charges and expenses of this Scheme will be shared between the Offeror and the Company equally.

27 May 2019

IN THE GRAND COURT OF THE CAYMAN ISLANDS
FINANCIAL SERVICES DIVISION

Cause No. FSD77 of 2019 (RMJ)

IN THE MATTER OF SECTIONS 15 AND 86 OF THE COMPANIES LAW (2018 REVISION)
AND IN THE MATTER OF THE GRAND COURT RULE, ORDER 102
AND IN THE MATTER OF CHINA HENGSHI FOUNDATION COMPANY LIMITED

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 10 May 2019 (the “**Order**”) made in the above matter, the Grand Court of the Cayman Islands (the “**Court**”) has directed a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purpose of considering and, if thought fit, approving, with or without modifications, a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between China Hengshi Foundation Company Limited (the “**Company**”) and the Scheme Shareholders and that the Court Meeting will be held at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong on Tuesday, 18 June 2019 at 9:30 a.m.. All all Scheme Shareholders are invited to attend.

A copy of the Scheme of Arrangement and a copy of an explanatory memorandum explaining the effect of the Scheme of Arrangement are incorporated in the composite scheme document of which this Notice forms part. A copy of the composite scheme document can also be obtained by the Scheme Shareholders from the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong.

Scheme Shareholders may vote in person at the Court Meeting or they may appoint another person (who must be an individual), whether a member of the Company or not, to attend and vote in their stead. A form of proxy for use at the Court Meeting is enclosed with the composite scheme document dated 27 May 2019 despatched to members of the Company on 27 May 2019.

In the case of joint holders of a share, any one of such persons may vote at the Court Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto. However, if more than one of such joint holders be present at the Court Meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding. For this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register of members of the Company in respect of such joint holding, the first named member being the senior.

It is requested that forms appointing proxies be deposited at the Hong Kong branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 9:30 a.m. on Sunday, 16 June 2019, but if forms are not so lodged they may be handed to the chairman of the Court Meeting at the Court Meeting. Pursuant to the Order, the chairman has absolute discretion whether or not to accept such forms.

By the Order, the Court has appointed Mr. Zhang Yuqiang, a director of the Company, or failing him, Mr. Zhang Jiankan, also a director of the Company, or failing him any other person who is a director of the Company as at the date of the Order, to act as the chairman of the Court Meeting and has directed the chairman of the Court Meeting to report the results of the Court Meeting to the Court.

The Scheme of Arrangement will be subject to a subsequent sanction of the Court.

By Order of the Court
China Hengshi Foundation Limited

Dated 27 May 2019

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

Principal Place of Business in Hong Kong
19th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong



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

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of China Hengshi Foundation Company Limited (the “**Company**”) will be held at Whampoa 03, 1/F, Harbour Grand Kowloon, 20 Tak Fung Street, Whampoa Garden, Hunghom, Kowloon, Hong Kong on Tuesday, 18 June 2019 at 10:30 a.m. (Hong Kong time) (or so soon thereafter as the meeting of the Scheme Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Grand Court of the Cayman Islands for the same day and place shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolutions:

SPECIAL RESOLUTION

1. **THAT:**

- (a) Pursuant to the scheme of arrangement dated 27 May 2019 (the “**Scheme of Arrangement**”) between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print thereof, which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved or imposed by the Grand Court of the Cayman Islands, on the Effective Date (as defined in the Scheme of Arrangement), the issued share capital of the Company shall be reduced by the cancellation and extinguishment of the Scheme Shares (as defined in the Scheme of Arrangement); and
- (b) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme of Arrangement and the reduction of capital pursuant to the Scheme of Arrangement, including (without limitation) giving consent to any modification of, or addition to, the Scheme of Arrangement or the reduction of capital which the Grand Court of the Cayman Islands may see fit to impose.

ORDINARY RESOLUTION

2. **THAT:**

- (a) subject to and simultaneously with the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) taking effect, the share capital of the Company shall be restored to its former amount by allotting and issuing to the Offeror (as defined in the Scheme of Arrangement), credited as fully paid at par, the same number of ordinary shares of US\$0.001 each in the share capital of the Company as the number of Scheme Shares cancelled and extinguished; and

- (b) the credit arising in the books of account of the Company consequent upon the reduction of its issued share capital resulting from the cancellation and extinguishment of the Scheme Shares referred to in resolution 1(a) shall be applied in paying up in full at par the shares allotted and issued to the Offeror, pursuant to resolution 2(a) above.
3. **THAT** the rollover arrangement between the Offeror and the Participating Shareholders (as defined in the Scheme of Arrangement) under the rollover agreement entered into among them on 3 April 2019 is hereby approved.

By Order of the Board
China Hengshi Foundation Company Limited
ZHANG Yuqiang
Chairman

Dated: 27 May 2019

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

Head Office and Principal Place of Business in Hong Kong
19th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company, but must attend the extraordinary general meeting in person to represent him.
- (2) A white form of proxy for use at the extraordinary general meeting is enclosed with the composite document containing the Scheme of Arrangement dated 27 May 2019 despatched to members of the Company.
- (3) In order to be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notorially certified copy thereof, must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not less than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof failing which the form of proxy will not be valid. Completion and return of the form of proxy will not preclude a member from attending the extraordinary general meeting and voting in person if he so wishes. In the event that a member attends and votes at the extraordinary general meeting after having lodged his form of proxy, his form of proxy will be revoked by operation of law.
- (4) In the case of joint holders of a share, 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 will be determined by the order in which the names stand in the register of members of the Company in respect of the relevant joint holding.
- (5) The register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019 (both days inclusive) and during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the extraordinary general meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 12 June 2019.