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CHINA HENGSHI FOUNDATION COMPANY LIMITED

中國恒石基業有限公司

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

(Stock code: 1197)

POSITIVE PROFIT ALERT

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

The Board wishes to inform the Shareholders and potential investors that, based on the preliminary review and assessment of the Management Accounts of the Group for the Relevant Period and the information currently available to the Board, the Group is expected to record an increase of approximately 35% to 45% in the profit attributable to the owners of the Company for the Relevant Period as compared to that for the same period of last year. However, if the one-off non-operating gain on release of financial guarantee contracts for the year ended 31 December 2015 was excluded, the profit attributable to the owners of the Company would have recorded a significant increase of approximately 100% to 110% for the Relevant Period as compared to that for the same period in 2015.

This announcement is made solely on the basis of preliminary review by the Company with reference to the Management Accounts for the Relevant Period and the information currently available to the Board, which have not been audited by the external auditors or reviewed by the audit committee of the Company.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

This announcement is made by China Hengshi Foundation Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”).

The board of directors of the Company (the “**Board**”) wishes to inform the shareholders of the Company (the “**Shareholders**”) and potential investors that, based on the preliminary review and assessment of the unaudited consolidated management accounts (the “**Management Accounts**”) of the Group for the year ended 31 December 2016 (the “**Relevant Period**”) and the information currently available to the Board, the Group is expected to record an increase of approximately 35% to 45% in the profit attributable to the owners of the Company for the Relevant Period as compared to that for the same period of last year. However, if the one-off non-operating gain on release of financial guarantee contracts for the year ended 31 December 2015 was excluded, the profit attributable to the owners of the Company would have recorded a significant increase of approximately 100% to 110% for the Relevant Period as compared to that for the same period in 2015.

Reference is made to the Company’s prospectus dated 8 December 2015, where it disclosed that the Group recorded a gain on release of financial guarantee contracts of approximately RMB65.3 million relating to the release of guarantees the Group provided to banks in respect of bank facilities granted to its related parties and a shareholder in the six months ended 30 June 2015. Such gain on release of financial guarantee contracts is non-recurring as the Group does not intend to provide such guarantees for the Group’s related parties and that shareholder in the future.

Other than the above mentioned non-operating gain on release of financial guarantee contracts for the year ended 31 December 2015 (which did not occur in the Relevant Period), The expected significant increase in the profit is mainly attributable to the following factors: (1) the Company actively responded to, guided and dug the demands of customers, adjusted the product structure to improve the sales structure of the products, resulting in an increase in product sales; (2) the Company timely adjusted and increased the market share of the overseas market, which further enhanced the sales revenue from the overseas market, and at the same time the continued depreciation of the RMB was beneficial to the Company's profit growth; (3) the Company continued to strengthen the business development, which led to a stable growth in orders from existing and new customers; and (4) the Company further enhanced the cost control efforts which yielded significant results in decreasing costs and increasing efficiency.

The Group is still in the process of finalizing the results for the Relevant Period. As such, this announcement is made solely on the basis of preliminary assessment by the Board with reference to the Management Accounts for the Relevant Period and the information currently available to the Board, which may be subject to adjustments after further internal review by the Board and audit by the external auditors of the Company. Details of the financial performance of the Group will be contained in the annual results announcement of the Group for the Relevant Period, which is expected to be published in March 2017.

Shareholders and potential investors are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board of
CHINA HENGSHI FOUNDATION COMPANY LIMITED
Zhang Yuqiang
Chairman

Hong Kong, 17 February 2017

As at the date of this announcement, the directors of the Company are:

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

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

*Independent
non-executive directors:* *Mr. FANG Xianbai, Mr. PAN Fei, Mr. CHEN Zhijie*