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Hebei Yichen Industrial Group Corporation Limited*

河北翼辰實業集團股份有限公司

(A joint stock limited liability company incorporated in the People's Republic of China)

(Stock Code: 1596)

CONTINUING CONNECTED TRANSACTIONS

NEW MASTER PROCESSING AGREEMENT AND NEW MASTER PURCHASE AGREEMENT

NEW MASTER AGREEMENTS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the prospectus of the Company dated 9 December 2016 in relation to, among others, the Prior Master Processing Agreement and the Prior Master Purchase Agreement.

Steel beams, which may be produced through processing steel billets, are used by the Group as raw materials or semi-finished products for production of baffles, fish plates and iron plates, being three of the parts and components of the Group's rail fastening system products. The Prior Master Processing Agreement and the Prior Master Purchase Agreement had expired on 31 July 2018. The Company intends to continue to procure steel billet processing services from Longji or, where the Company considers appropriate taking into account, among others, any unexpected increase in demand for steel beams, the procurement costs of steel billets and/or the Group's inventory of steel billets, the Company may purchase steel beams from Longji directly, so as to take advantage of the proximity of the relevant facilities of Longji with the Group's premises and the lower quotations offered by Longji as compared to those offered by Independent Third Parties suppliers. As such, on 28 August 2018, Longji as supplier and the Company as customer entered into the New Master Processing Agreement in relation to the supply of processing services in respect of steel billets by Longji to the Company for the term from 1 August 2018 to 31 December 2020, and the New Master Purchase Agreement in relation to the supply of steel beams by Longji to the Company for the term from 1 August 2018 to 31 December 2020.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Longji is owned as to (i) 40% by Ms. Zhou Qiuju (周秋菊), the spouse of Mr. Zhang Haijun, an executive Director and one of the Controlling Shareholders; (ii) 20% by Ms. Zhang Junxia (張軍霞), one of the Controlling Shareholders; (iii) 20% by Ms. Sun Shujing (孫書京), the spouse of Mr. Zhang Xiaogeng (張小更), one of the Controlling Shareholders; and (iv) 20% by Ms. Zhang Xiaoxia (張小霞), the spouse of Mr. Zhang Xiaosuo (張小鎖), a Supervisor and one of the Controlling Shareholders. As such, Longji is an associate of Mr. Zhang Haijun and a connected person of the Company under the Listing Rules, and the transactions contemplated under the New Master Processing Agreement and the New Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the continuing connected transactions contemplated under the New Master Processing Agreement and the New Master Purchase Agreement are entered into by the Company with the same counterparty (i.e. Longji) for the purpose of the Group's production, they are aggregated and treated as if they are a single series of continuing connected transactions pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. Given that the aggregate of the Purchase Annual Caps and the Processing Annual Caps is expected to represent less than 5% of the applicable percentage ratios, the continuing connected transactions contemplated under the New Master Processing Agreement and the New Master Purchase Agreement are subject to the announcement, annual review and reporting requirements but are exempt from the shareholders' approval and circular (including independent financial advice) requirements under Chapter 14A of the Listing Rules.

NEW MASTER AGREEMENTS FOR CONTINUING CONNECTED TRANSACTIONS

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(a) New Master Processing Agreement

Pursuant to the New Master Processing Agreement, the Company may from time to time serve written processing orders to Longji specifying the quantities of still billets that it intends to engage Longji to process and the required specifications. Within five days after receipt of each such processing order, Longji shall inform the Company in writing whether it accepts the processing order and, if the processing order is accepted, provides a quotation. Upon the Company issuing written confirmation of its acceptance of Longji's quotation, Longji and the Company shall enter into a separate contract setting out the specific terms and conditions in respect of the processing of steel billets, which shall be in strict accordance with the terms and conditions of the New Master Processing Agreement.

The price which Longji may charge for the processing of steel billets shall be determined on the basis of 110% of the actual costs of providing such processing services, provided that the terms and conditions shall not be less favourable than those offered by Longji to its Independent Third Party customers for providing the same and/or comparable services from time to time.

Such pricing formula (including the percentage margin) has been determined and agreed by Longji and the Company after arm's length negotiations. In determining the pricing formula, the Company had taken into account the prevailing market price of such services, so as to ensure that the pricing formula prescribed in the New Master Processing Agreement is fair and reasonable and no less favourable to the Company than the pricing formula proposed and/or the prices offered by Independent Third Parties suppliers.

Before serving any written processing order to Longji in respect of processing of steel billets, the Company will consider a number of factors, including the demand for rail fastening system products of the Group and the quantities of baffles, fish plates and iron plates needed and the corresponding quantities of steel beams required for production, the Group's inventory of steel billets and steel beams, and the prevailing market prices of steel and of baffles, fish plates and iron plates which the Group may purchase directly from Independent Third Parties suppliers. Further, before accepting any quotation provided by Longji for processing of steel billets, the Company will consider the prices then offered by Independent Third Parties Suppliers for processing the same or a comparable quantity of steel billets.

Under the New Master Processing Agreement, there is no minimum processing amount nor exclusivity commitment for the Company to procure steel billet processing services from Longji only, and the Company has full discretion in deciding whether to accept the quotations provided by Longji.

The Directors consider that the above pricing method, together with the above procedures to be carried out by the Company, can ensure that the transactions contemplated under the New Master Processing Agreement will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

The term of the New Master Processing Agreement shall commence on 1 August 2018 and end on 31 December 2020, unless terminated by Longji and/or the Company before expiry of the term in accordance with the terms and conditions set out therein.

The Annual Caps

The table below sets forth the details of the previous continuing connected transactions between Longji and the Company under the Prior Master Processing Agreement:

	Annual cap <i>RMB</i>	Actual transaction amount <i>RMB</i>
For the year ended		
31 December 2016	3,300,000	1,197,000
31 December 2017	6,200,000	2,860,000
31 December 2018 (up to 31 July 2018)	3,600,000	3,600,000

The Directors expect that the aggregate annual consideration payable by the Company to Longji for the steel billet processing services under the New Master Processing Agreement will not exceed the annual caps of RMB2,580,000, RMB6,200,000 and RMB6,200,000 for the years ending 31 December 2018 (from 1 August 2018 onwards), 31 December 2019 and 31 December 2020 respectively.

In arriving at the Processing Annual Caps, the Directors have taken into account (i) the sales quantity of rail fastening system products and baffles, fish plates and iron plates for the seven months ended 31 July 2018, and the corresponding quantity of steel beams consumed; (ii) the expected demand for steel beams to meet the production requirements of baffles, fish plates and iron plates for the period from 1 August 2018 to 31 December 2020, which is expected to be at a level similar to that for the seven months ended 31 July 2018 on an annualised basis, and the proportion thereof expected to be satisfied by procuring steel billet processing services from Longji under the New Master Processing Agreement; and (iii) the prevailing costs of Longji for processing steel billets.

To ensure that the transactions contemplated under the New Master Processing Agreement will be conducted on normal commercial terms or better that are fair and reasonable, the Company will obtain quotations from at least one Independent Third Party supplier before placing any processing order or entering into any contract for steel billet processing services with Longji.

The independent non-executive Directors and the auditors of the Group will also review the transactions contemplated under the New Master Processing Agreement annually and report their respective findings in accordance with the Listing Rules.

(b) New Master Purchase Agreement

Pursuant to the New Master Purchase Agreement, the Company may from time to time serve written purchase orders to Longji specifying the names, quantities and specifications of the steel beams that it intends to purchase from Longji. Within five days after receipt of each such purchase order, Longji shall inform the Company in writing whether it accepts the purchase order and, if the purchase order is accepted, provides a quotation. Upon the Company issuing written confirmation of its acceptance of Longji's quotation, Longji and the Company shall enter into a separate contract setting out the specific terms and conditions in respect of the sale and purchase of steel beams, which shall be in strict accordance with the terms and conditions of the New Master Purchase Agreement.

The prices for the steel beams to be supplied by Longji to the Company shall be determined on the basis of 110% of the actual costs of providing such products, provided that the terms and conditions shall not be less favourable than those offered by Longji to its Independent Third Party customers for the sale of the same and/or comparable products from time to time.

Such pricing formula (including the percentage margin) has been determined and agreed by Longji and the Company after arm's length negotiations. In determining the pricing formula, the Company had taken into account the pricing formula adopted and/or the prices charged by Independent Third Parties suppliers of steel beams in the past, and the prevailing market price of steel beams, so as to ensure that the pricing formula prescribed in the New Master Purchase Agreement is fair and reasonable and no less favourable to the Company than the pricing formula proposed and/or the prices offered by Independent Third Parties suppliers.

Before serving any written purchase order to Longji in respect of purchase of steel beams, the Company will consider a number of factors, including the demand for rail fastening system products of the Group and the quantities of baffles, fish plates and iron plates needed and the corresponding quantities of steel beams required for production, the Group's inventory of steel beams including among others the quantity of steel beams obtained by procuring steel billet processing services from Longji under the New Master Processing Agreement, and the prevailing market prices of baffles, fish plates and iron plates which the Group may purchase directly from Independent Third Parties suppliers. Further, before accepting any quotation provided by Longji for supply of steel beams, the Company will consider the prices then offered by Independent Third Parties Suppliers for supply of the same or a comparable quantity of steel beams.

Under the New Master Purchase Agreement, there is no minimum purchase amount nor exclusivity commitment for the Company to purchase steel beams from Longji only, and the Company has full discretion in deciding whether to accept the quotations provided by Longji.

The Directors consider that the above pricing method, together with the above procedures to be carried out by the Company, can ensure that the transactions contemplated under the New Master Purchase Agreement will be conducted on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

The term of the New Master Purchase Agreement shall commence on 1 August 2018 and end on 31 December 2020, unless terminated by Longji and/or the Company before expiry of the term in accordance with the terms and conditions set out therein.

The Annual Caps

The table below sets forth the details of the previous continuing connected transactions between Longji and the Company under the Prior Master Processing Agreement:

	Annual cap <i>RMB</i>	Actual transaction amount <i>RMB</i>
For the year ended		
31 December 2016	850,000	–
31 December 2017	1,700,000	–
31 December 2018 (up to 31 July 2018)	990,000	–

The Directors expect that the aggregate annual consideration payable by the Company to Longji for the purchases of steel beams under the New Master Purchase Agreement will not exceed the annual caps of RMB590,000, RMB1,430,000 and RMB1,430,000 for the years ending 31 December 2018 (from 1 August 2018 onwards), 31 December 2019 and 31 December 2020 respectively.

In arriving at the Purchase Annual Caps, the Directors have taken into account (i) the sales quantity of rail fastening system products and baffles, fish plates and iron plates for the seven months ended 31 July 2018, and the corresponding quantity of steel beams consumed; (ii) the expected demand for steel beams to meet the production requirements of baffles, fish plates and iron plates for the period from 1 August 2018 to 31 December 2020, which is expected to be at a level similar to that for the seven months ended 31 July 2018 on an annualised basis; (iii) the expected quantity of steel beams obtainable by procuring steel billet processing services from Longji under the New Master Processing Agreement; (iv) the estimated quantity of steel beams to be purchased by the Group to cater for any unexpected increase in demand for steel beams which the Company may not be able to meet in an economically efficient manner or to meet at all by procuring steel billet processing services from Longji under the New Master Processing Agreement; and (v) the prevailing costs (including material costs) of Longji for production of steel beams. Based on the actual transaction amounts during the three years ended 31 December 2016, 2017 and 2018 (up to 31 July 2018), the Directors have reassessed the likelihood that purchases of steel beams will need to be made from Longji and adjusted the Purchase Annual Caps downwards as compared with the previous annual caps.

To ensure that the transactions contemplated under the New Master Purchase Agreement will be conducted on normal commercial terms or better that are fair and reasonable, the Company will obtain quotations from at least one Independent Third Party supplier before placing any purchase order or entering into any contract for purchase of steel beams with Longji.

The independent non-executive Directors and the auditors of the Group will also review the transactions contemplated under the New Master Purchase Agreement annually and report their respective findings in accordance with the Listing Rules.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

Steel beams are used by the Group as raw materials or semi-finished products for production of baffles, fish plates and iron plates, which are three of the parts and components of the Group's rail fastening system products. Steel beams may be produced through processing steel billets, which is relatively more cost-effective. Alternatively, steel beams may be purchased directly from suppliers in the market in exceptional circumstances, such as when there is an unexpected increase in demand for steel beams which cannot be feasibly or economically efficiently met by procuring steel billet processing services.

As mentioned in the prospectus of the Company dated 9 December 2016, the Group processed steel billets for production of steel beams from time to time at its own production facilities until July 2015, when it sold the buildings, production facilities and equipment for metal processing to Longji. Following the above disposal, the Company had entered into the Prior Master Processing Agreement and the Prior Master Purchase Agreement such that the Company could secure the supply of steel beams through procuring steel billet processing services from Longji, or where the Company considers appropriate taking into account, among others, any unexpected increase in demand for steel beams, the procurement costs of steel billets and the Group's inventory of steel billets, the Company may purchase steel beams from Longji directly.

Under the Prior Master Processing Agreement, the Group had been able to take advantage of the proximity of the relevant facilities of Longji with the Group's premises and the lower quotations offered by Longji as compared to those offered by Independent Third Parties suppliers. As such, the Board considers that it is in the best interests of the Group to enter into the New Master Processing Agreement and the New Master Purchase Agreement and continue to procure steel billet processing services and, where necessary, directly source steel beams from Longji.

The terms and conditions of the New Master Processing Agreement and the New Master Purchase Agreement were negotiated between Longji and the Company on an arm's length basis. The Directors (including the independent non-executive Directors) are of the view that the terms and conditions of the New Master Processing Agreement and the New Master Purchase Agreement and the Annual Caps are fair and reasonable and in the interests of the Company the Shareholders as a whole, and the continuing connected transactions contemplated thereunder are on normal commercial terms and in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

Mr. Zhang Haijun (張海軍), the chairman of the Board and an executive Director, is the spouse of Ms. Zhou Qiuju (周秋菊), one of the owners of Longji, and a member of the Controlling Shareholders Group. In addition, the executive Directors Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超) and Mr. Zhang Lihuan (張力歡) all have family relationships with Mr. Zhang Haijun, Ms. Zhou Qiuju and/or the other owners of Longji, and each of them is a member of the Controlling Shareholders Group. Other than the above Directors, none of the Directors has or is deemed to have any material interest in the New Master Processing Agreement or the New Master Purchase Agreement or the transactions contemplated thereunder (including the Annual Caps). Mr. Zhang Haijun, Mr. Zhang Ligang, Mr. Wu Jinyu, Mr. Zhang Chao and Mr. Zhang Lihuan have abstained from voting on the relevant resolutions at the board meeting.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Longji is owned as to (i) 40% by Ms. Zhou Qiuju (周秋菊), the spouse of Mr. Zhang Haijun, an executive Director and one of the Controlling Shareholders; (ii) 20% by Ms. Zhang Junxia (張軍霞), one of the Controlling Shareholders; (iii) 20% by Ms. Sun Shujing (孫書京), the spouse of Mr. Zhang Xiaogeng (張小更), one of the Controlling Shareholders; and (iv) 20% by Ms. Zhang Xiaoxia (張小霞), the spouse of Mr. Zhang Xiaosuo (張小鎖), a Supervisor and one of the Controlling Shareholders. As such, Longji is an associate of Mr. Zhang Haijun and a connected person of the Company under the Listing Rules, and the transactions contemplated under the New Master Processing Agreement and the New Master Purchase Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the continuing connected transactions contemplated under the New Master Processing Agreement and the New Master Purchase Agreement are entered into by the Company with the same counterparty (i.e. Longji) for the purpose of the Group's production, they are aggregated and treated as if they are a single series of continuing connected transactions pursuant to Rules 14A.81 and 14A.82 of the Listing Rules. Given that the aggregate of the Purchase Annual Caps and the Processing Annual Caps is expected to represent less than 5% of the applicable percentage ratios, the continuing connected transactions contemplated under the New Master Processing Agreement and the New Master Purchase Agreement are subject to the announcement, annual review and reporting requirements but are exempt from the shareholders' approval and circular (including independent financial advice) requirements under Chapter 14A of the Listing Rules.

GENERAL

The Company, together with its subsidiaries, is principally engaged in manufacturing and sale of rail fastening system products and welding materials.

Longji is principally engaged in corporate management services, leasing of equipment and real property, and processing of metals.

DEFINITIONS

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

“Annual Caps”	collectively, the Processing Annual Caps and the Purchase Annual Caps
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Hebei Yichen Industrial Group Corporation Limited* (河北翼辰實業集團股份有限公司), a joint stock limited liability company incorporated in the PRC and the issued H Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and in the context of this announcement, refer to the controlling shareholders of the Company, being Mr. Zhang Haijun (張海軍), Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋), who are acting in concert in terms of their exercise of voting rights at general meetings of the Company and had entered into a concert party agreement to confirm their acting-in-concert agreement on 12 January 2018, and in aggregate control approximately 65.44% of the total issued share capital of the Company as at the date of this announcement
“Controlling Shareholders Group”	collectively, Mr. Zhang Haijun (張海軍), Ms. Zhang Junxia (張軍霞), Mr. Zhang Xiaogeng (張小更), Mr. Zhang Xiaosuo (張小鎖), Mr. Zhang Ligang (張立剛), Mr. Wu Jinyu (吳金玉), Mr. Zhang Chao (張超), Mr. Zhang Lijie (張力杰), Mr. Zhang Lifeng (張力峰), Ms. Zhang Yanfeng (張艷峰), Mr. Zhang Libin (張力斌), Mr. Zhang Lihuan (張力歡), Mr. Zhang Ning (張寧), Ms. Zhang Hong (張宏) and Mr. Zhang Ruiqiu (張瑞秋), being a group of 15 individuals
“Director(s)”	the director(s) of the Company
“Group”	Collectively, the Company and its subsidiaries for the time being

“H Share(s)”	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB0.5 each, which are listed on the Stock Exchange
“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
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) not connected person(s) or core connected person(s) (as defined in the Listing Rules) of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Longji”	Shijiazhuang City Gaocheng District Longji Corporate Management Co., Ltd.* (石家莊市藁城區隆基企業管理有限公司), a limited liability company established under the laws of the PRC on June 8, 2013 and controlled by connected persons of the Company as at the date of this announcement
“New Master Processing Agreement”	the master processing agreement dated 28 August 2018 entered into between Longji as supplier and the Company as customer in relation to the supply of processing services in respect of steel billets by Longji to the Group for the term from 1 August 2018 to 31 December 2020
“New Master Purchase Agreement”	the master purchaser agreement dated 28 August 2018 entered into between Longji as supplier and the Company as customer in relation to the supply of steel beams by Longji to the Group for the term from 1 August 2018 to 31 December 2020
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macao Special Administrative Region of the People’s Republic of China and Taiwan
“Prior Master Processing Agreement”	the master processing agreement dated 30 November 2015 entered into between Longji as supplier and the Company as customer in relation to the supply of processing services in respect of steel billets by Longji to the Group for the term from 1 August 2015 to 31 July 2018
“Prior Master Purchase Agreement”	the master purchaser agreement dated 30 November 2015 entered into between Longji as supplier and the Company as customer in relation to the supply of steel beams by Longji to the Group for the term from 1 August 2015 to 31 July 2018

“Processing Annual Caps”	the maximum of RMB2,580,000, RMB6,200,000 and RMB6,200,000 which the aggregate amount of consideration payable by the Company to Longji for the processing services in respect of steel billets under the New Master Processing Agreement is expected not to exceed for the years ending 31 December 2018 (from 1 August 2018 onwards), 31 December 2019 and 31 December 2020 respectively, as referred to in the section headed “New Master Processing Agreement – The Annual Caps” in this announcement
“Purchase Annual Caps”	the maximum of RMB590,000, RMB1,430,000 and RMB1,430,000 which the aggregate amount of consideration payable by the Company to Longji for the purchases of steel beams under the New Master Purchase Agreement is expected not to exceed for the years ending 31 December 2018 (from 1 August 2018 onwards), 31 December 2019 and 31 December 2020 respectively, as referred to in the section headed “New Master Purchase Agreement – The Annual Caps” in this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares of RMB0.5 each in capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	the supervisor(s) of the Company
“%”	per cent.

By order of the Board
Hebei Yichen Industrial Group Corporation Limited*
ZHANG Haijun
Chairman

Shijiazhuang, The PRC, 28 August 2018

As at the date of this announcement, the executive Directors of the Company are Mr. Zhang Haijun, Mr. Zhang Ligang, Mr. Wu Jinyu, Mr. Zhang Chao, Mr. Zhang Lihuan and Ms. Fan Xiulan; the independent non-executive Directors of the Company are Mr. Jip Ki Chi, Mr. Wang Qi and Mr. Zhang Ligu.

* For identification purpose only