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天立国际控股有限公司

Tianli International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1773)

CONTINUING CONNECTED TRANSACTIONS 2024 SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

BACKGROUND

Reference is made to the announcement of the Company dated 9 September 2021 and the circular of the Company dated 20 September 2021 in relation to the entering into of the 2021 School Construction Framework Agreement between Tianli Education and Nanyuan Construction, pursuant to which Nanyuan Construction shall provide construction-related services to Tianli Education and its subsidiaries and schools.

As the 2021 School Construction Framework Agreement is going to expire on 31 August 2024, and in light of the business needs and benefits of continuing the existing transactions with Nanyuan Construction, the Board proposes to seek the approval of the Independent Shareholders for entering into the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Nanyuan Construction is wholly owned by Tianli Holding, which in turn is indirectly owned as to approximately 75.80% by Mr. Luo Shi. Mr. Luo Shi is an executive Director, the chairman, the chief executive officer and a controlling shareholder of the Company. As such, Nanyuan Construction is a connected person of the Company. Accordingly, the 2024 School Construction Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Caps exceed 5%, the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps are subject to the requirements of reporting, annual review, announcement, circular and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

GENERAL INFORMATION AND EXTRAORDINARY GENERAL MEETING

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, approve the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

The Independent Board Committee, comprising Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun, all being independent non-executive Directors, has been established to consider the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Rainbow Capital has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Any Shareholder who has a material interest in the 2024 School Construction Framework Agreement shall abstain from voting on the resolution in relation thereto to be proposed at the EGM. As at the date of this announcement, Mr. Luo Shi is a controlling shareholder of the Company, and has a material interest in the 2024 School Construction Framework Agreement. As such, Mr. Luo Shi and his associates shall abstain from voting on the ordinary resolution(s) approving the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

A circular containing, among other things, (i) a letter from the Board setting out details of the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of recommendation from Rainbow Capital to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the EGM; and (v) other information required under the Listing Rules, will be despatched to the Shareholders on or before 5 August 2024.

BACKGROUND

Reference is made to the announcement of the Company dated 9 September 2021 and the circular of the Company dated 20 September 2021 in relation to the entering into of the 2021 School Construction Framework Agreement between Tianli Education and Nanyuan Construction, pursuant to which Nanyuan Construction shall provide construction-related services to Tianli Education and its subsidiaries and schools.

As the 2021 School Construction Framework Agreement is going to expire on 31 August 2024, and in light of the business needs and benefits of continuing the existing transactions with Nanyuan Construction, the Board proposes to seek the approval of the Independent Shareholders for entering into the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

The principal terms of the 2024 School Construction Framework Agreement are set out below:

2024 SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

Date

17 July 2024

Parties

- (1) Tianli Education; and
- (2) Nanyuan Construction.

Subject matter

Pursuant to the 2024 School Construction Framework Agreement, Nanyuan Construction or its subsidiaries shall provide construction-related services, including but not limited to planning and design services, inspection, acceptance and handover services, defect repairs and maintenance services, upgrade and reform services etc., in respect of school construction, expansion and alteration projects of Tianli Education or its subsidiaries or schools. The actual scope of services shall be determined in the specific contracts to be entered into between Nanyuan Construction or its subsidiaries and Tianli Education or its subsidiaries or schools.

Term

The 2024 School Construction Framework Agreement will be valid for a term of three years from 1 September 2024 to 31 August 2027.

Conditions precedent

The effectiveness of the 2024 School Construction Framework Agreement is subject to the Independent Shareholders' approval in accordance with the Listing Rules.

Pricing policies

Under the 2024 School Construction Framework Agreement, service fees to be charged by Nanyuan Construction or its subsidiaries will be the actual costs plus a premium in the range of 9% to 11% of the actual costs, depending on the prevailing market circumstances. The actual costs include all costs incurred in relation to the construction of the project (such as labour, materials, equipment, and project management and planning) and value-added tax and additional taxes payable by Nanyuan Construction or its subsidiaries. The Board has considered the market range of premium which is based on, among other things, applicable regulations and guidance on transfer pricing, as well as selected market comparables, with the assistance of an independent business consulting firm. The Board is of the view that the abovementioned premium percentage range under the 2024 School Construction Framework Agreement is within such market range.

Having reviewed the 2024 School Construction Framework Agreement and other relevant documents, and based on the Company's confirmation on the method of pricing, the PRC legal advisor of the Company was of the view that the pricing of the transactions contemplated under the 2024 School Construction Framework Agreement has complied with the applicable PRC regulations and guidance on transfer pricing transactions, including Enterprise Income Tax Law (2018 Amendment) 《企業所得稅法(2018修正)》, Law of the PRC on the Administration of Tax Collection (2015 Amendment) 《(中華人民共和國稅收徵收管理法(2015修正))》, Special Tax Adjustment Implementation Measures (Trial) 《(特別納稅調整實施辦法(試行))》, and Special Taxation Survey Adjustment and Mutual Consultation Procedures Management Measures 《(特別納稅調查調整及相互協商程序管理辦法)》.

HISTORICAL ANNUAL CAPS AND TRANSACTION AMOUNTS

The table below sets forth the historical annual caps for the three years ending 31 August 2024, and the historical transaction amounts between the Company and Nanyuan Construction under the 2021 School Construction Framework Agreement for the two years ended 31 August 2023 and the ten months ended 30 June 2024:

	For the year ended 31 August 2022 (RMB'000)	For the year ended 31 August 2023 (RMB'000)	For the year ending 31 August 2024 (RMB'000)
Annual caps	1,500,000	750,000	600,000
	For the year ended 31 August 2022 (RMB'000)	For the year ended 31 August 2023 (RMB'000)	For the ten months ended 30 June 2024 (RMB'000)
Historical transaction amounts	618,468	84,861	190,280

The respective annual caps for the two years ended 31 August 2023 had not been exceeded. As at the date of this announcement, the corresponding annual cap for the year ending 31 August 2024 has not been exceeded. The Company expects that the corresponding annual cap for the year ending 31 August 2024 will not be exceeded.

ANNUAL CAPS FOR THE THREE YEARS ENDING 31 AUGUST 2027

The table below sets out the Annual Caps under the 2024 School Construction Framework Agreement for the three financial years ending 31 August 2027:

	For the year ending 31 August 2025 (RMB'000)	For the year ending 31 August 2026 (RMB'000)	For the year ending 31 August 2027 (RMB'000)
Annual caps	500,000	360,000	260,000

Basis of Determination of the Annual Caps

The abovementioned Annual Caps were determined primarily based on arm's length negotiations between Tianli Education and Nanyuan Construction with reference to, among other factors:

- (i) the historical service fees in respect of the services provided by Nanyuan Construction for each of the two financial years ended 31 August 2023 and the ten months ended 30 June 2024 as set out above. It is contemplated that the Group will continue to engage Nanyuan Construction or its subsidiaries to construct schools and conduct improvement and expansion work in the next few years based on the robust expansion plan of the Group as detailed below. The Group expects to open approximately three to five self-operated schools in each of the three years from September 2024 to August 2027, of which approximately one school per year will be invested and constructed by the Group;
- (ii) the average historical actual costs of construction for each school, the characters of the schools to be built including but not limited to area, capacity and function of the campus, and the local economic conditions; and
- (iii) the expected service fees for construction work to be provided by Nanyuan Construction or its subsidiaries for the schools of the Group under development with anticipated inflation and increase in development costs.

Based on the current expansion plan of the Company, the following table sets out (i) the school projects in respect of which the Group plans to engage Nanyuan Construction or its subsidiaries for the provision of construction services in the next three years; and (ii) the construction service fees estimated to be payable to Nanyuan Construction or its subsidiaries for each of the three years ending 31 August 2027, respectively, for the services provided in relation to such school projects:

	Estimated service fees (RMB'000)		
	For the year ending 31 August 2025	For the year ending 31 August 2026	For the year ending 31 August 2027
School projects			
Schools in operation			
Expansion work of 6 schools	240,000	100,000	–
Maintenance and renovation projects of schools	40,000	40,000	40,000
Schools under planning			
Construction of one new school per year from 2025 to 2027	220,000	220,000	220,000
Total	500,000	360,000	260,000

The abovementioned timeframe is based on the Company's current plan and estimation and may be subject to change depending on the actual circumstances.

Shareholders and potential investors should note that the Annual Caps should not be construed as an assurance or forecast by the Company of the future revenues of the Group.

REASONS FOR AND BENEFITS OF THE 2024 SCHOOL CONSTRUCTION FRAMEWORK AGREEMENT

Taking into account (i) Nanyuan Construction's experience and reputation in property development and construction; (ii) Nanyuan Construction's track record in providing construction services to our schools, particularly its reliability in delivering completed properties in a timely manner and its ability to select appropriate sub-contractors and manage them effectively; (iii) Nanyuan Construction's in-depth understanding of school construction, which the Board considers to be relatively more customised than the construction of typical residential or commercial properties; and (iv) our Group's needs as a school operator, the Board is of the view that engaging Nanyuan Construction and entering into the 2024 School Construction Framework Agreement instead of engaging other independent contractors is more reliable and is of the best interest of the Group and its Shareholders.

In view of the above, the Directors (excluding the independent non-executive Directors whose views will be contained in the circular to be published by the Company after considering the advice from the Independent Financial Adviser, and excluding Mr. Luo Shi who has a material interest in the 2024 School Construction Framework Agreement and the transactions contemplated thereunder) consider that the 2024 School Construction Framework Agreement was negotiated on an arm's length basis based on normal commercial terms and in the ordinary and usual course of business of the Group, and the terms of the 2024 School Construction Framework Agreement and the Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Luo Shi, an executive Director, has a material interest in the 2024 School Construction Framework Agreement and the transactions contemplated thereunder, and has abstained from voting on the relevant Board resolutions accordingly. Save as disclosed, none of the Directors has or is considered to have any material interest in the 2024 School Construction Framework Agreement and the transactions contemplated thereunder and, hence, none of the other Directors is required to abstain from voting on the relevant Board resolutions.

INTERNAL CONTROL MEASURES

The Group has implemented adequate internal control measures for monitoring all of its continuing connected transactions, including (without limitation) the regular reporting of transaction volume to the Group's finance department for monitoring the annual caps of the relevant transactions, where various departments including the construction department, the legal department and the finance department of the Group will be responsible for the implementation, monitoring and review of such measures. Before entering into a contract with Nanyuan Construction or its subsidiaries, such contract will be reviewed and approved by the department heads of the construction department, the legal department, the finance department and the chief executive officer, respectively. The service fees and premium of each contract with Nanyuan Construction or its subsidiaries will be reviewed by the Group's finance department, in order to ensure that (i) the service fees charged by Nanyuan Construction or its subsidiaries are no less favourable than those fee rates offered by independent third parties to the Group; and (ii) the premium charged by Nanyuan Construction or its subsidiaries is within 9% to 11% as stated under the 2024 School Construction Framework Agreement.

In addition, the Company's external auditors and independent non-executive Directors will conduct annual review of the transactions contemplated under the 2024 School Construction Framework Agreement, and provide annual confirmations in accordance with the Listing Rules that the transactions are conducted in accordance with the terms of the relevant agreements and the applicable pricing policies, on normal commercial terms, and in the interest of the Company and its Shareholders as a whole. The Group will also review the amounts of the transactions with Nanyang Construction and its subsidiaries on a regular basis in order to monitor and ensure that the Annual Caps will not be exceeded.

The Group will continue to adopt certain measures to protect the interests of the Independent Shareholders. Such measures include the adoption of an independent mechanism to govern and monitor the selection process for the Company's potential bidders, pursuant to which an internal tender review committee comprising members appointed by (and held accountable to) the independent non-executive Directors is established for reviewing the terms and conditions of tenders, ensuring the compliance with the relevant laws and regulations and screening out unsuitable tenders. The Company will also conduct sampling checks covering the receipts in respect of at least 70% of the total actual costs incurred.

Pursuant to the Group's tender policy, all potential bidders for the Group's construction works are subject to a standard and systematic tender review procedure maintained by the Group, which applies to tenders submitted by both connected persons and independent third parties. The standard and systematic tender review procedure generally involves (i) receiving potential bidders' tender documents; (ii) initial review of the tender documents; and (iii) assessment of the potential bidders' credentials. Having considered factors including the technical requirements of the concerned construction work, the potential bidders' qualification and experience, the expected completion time of the construction projects, the Group will then shortlist three potential candidates. Out of the three potential candidates, the Group will generally select the bidder who offered the lowest bidding price.

INFORMATION OF THE PARTIES

The Group

Established in 2002, the Group is a leading comprehensive education service operator in the western region of the PRC. We provide customers with comprehensive education management and diversified services. Our business spans across in 36 cities including Inner Mongolia, Shandong, Henan, Guizhou, Jiangxi, Zhejiang, Yunnan, Gansu, Anhui, Guangxi, Guangdong, Shaanxi, Shanghai, Chongqing and Hubei.

Tianli Education

Tianli Education is a limited liability company established in the PRC on 19 April 2013. It is the principal operating subsidiary of the Group. As at the date of this announcement, Tianli Education is wholly owned by the Company.

Nanyuan Construction

Nanyuan Construction is a limited liability company established in the PRC on 30 June 2000 and is principally engaged in the construction of residential projects and school complexes in the PRC.

Nanyuan Construction has completed 27 school construction projects for the Group since 2015, all of which were completed in a timely manner in accordance with the relevant contracts. There has not been any material delay in the provision of construction services by Nanyuan Construction to the Group. The key school construction projects completed by Nanyuan Construction for the Group include Chengdu Longquanyi Tianli School* (成都市龍泉驛區天立學校), Chengdu Pidu Tianli School* (成都市郫都區天立學校), Zhoukou Tianli School* (周口天立學校), Wulian Tianli School* (五蓮天立學校), Yichun Tianli School* (宜春天立學校), Zunyi Xinqu New District Tianli School* (遵義市新蒲新區天立學校) and Baoshan Tianli School* (保山市天立學校), etc.

As at the date of this announcement Nanyuan Construction is wholly owned by Tianli Holding, which in turn is indirectly owned as to approximately 75.80% by Mr. Luo Shi. There is no other ultimate beneficial natural person owner who holds not less than 30% of equity interest in Tianli Holding.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Nanyuan Construction is wholly owned by Tianli Holding, which in turn is indirectly owned as to approximately 75.80% by Mr. Luo Shi. Mr. Luo Shi is an executive Director, the chairman, the chief executive officer and a controlling shareholder of the Company. As such, Nanyuan Construction is a connected person of the Company. Accordingly, the 2024 School Construction Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Annual Caps exceed 5%, the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps are subject to the requirements of reporting, annual review, announcement, circular and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

The nature of the contracts to be entered into with Nanyuan Construction or its subsidiaries for each school construction project are service contracts, pursuant to which Nanyuan Construction or its subsidiaries will provide project management services to the Group as the general contractor and will subcontract most of the construction works to third party subcontractors. As Nanyuan Construction or its subsidiaries merely provides project management services to the Group and that the pricing of the construction of schools is on cost plus basis, the contracts to be entered into with Nanyuan Construction or its subsidiaries for each school construction project should not be treated as notifiable transactions under Chapter 14 of the Listing Rules.

GENERAL INFORMATION AND EXTRAORDINARY GENERAL MEETING

The Company will convene the EGM for the Independent Shareholders to consider and, if thought fit, approve the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

The Independent Board Committee, comprising Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun, all being independent non-executive Directors, has been established to consider the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Rainbow Capital has been appointed with the approval of the Independent Board Committee as the Independent Financial Adviser of the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps.

Any Shareholder who has a material interest in the 2024 School Construction Framework Agreement shall abstain from voting on the resolution in relation thereto to be proposed at the EGM. As at the date of this announcement, Mr. Luo Shi is a controlling shareholder of the Company, and has a material interest in the 2024 School Construction Framework Agreement. As such, Mr. Luo Shi and his associates shall abstain from voting on the ordinary resolution(s) approving the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps at the EGM.

A circular containing, among other things, (i) a letter from the Board setting out details of the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of recommendation from Rainbow Capital to the Independent Board Committee and the Independent Shareholders; (iv) a notice of the EGM; and (v) other information required under the Listing Rules, will be despatched to the Shareholders on or before 5 August 2024.

DEFINITION

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

“2021 School Construction Framework Agreement”	the agreement entered into between Tianli Education and Nanyuan Construction on 9 September 2021, pursuant to which, among other things, the New School Construction Framework Agreement is renewed for a term of three years until 31 August 2024;
“2024 School Construction Framework Agreement”	the agreement entered into between Tianli Education and Nanyuan Construction on 17 July 2024, pursuant to which, among other things, the 2021 School Construction Framework Agreement is renewed for a term of three years until 31 August 2027;
“Annual Cap(s)”	the proposed annual caps for the transactions contemplated under the 2024 School Construction Framework Agreement for each of the three years ending 31 August 2027 as set out in this announcement;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors of the Company;
“Company”	Tianli International Holdings Limited (天立國際控股有限公司), a company incorporated in the Cayman Islands with limited liability on 24 January 2017, the Shares of which are listed on the Main Board of The Hong Kong Stock Exchange Limited (Stock Code: 1773);

“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened on or around 23 August 2024 for the Independent Shareholders to consider and, if thought fit, approve the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps;
“Group”	the Company, its subsidiaries and entities under the Company’s control through contractual arrangements in PRC;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent board committee of the Company, comprising Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun, all being independent non-executive Directors, established to consider the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps, and to advise and make recommendations to the Independent Shareholders as to how to vote at the EGM on the ordinary resolution(s) regarding the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps;
“Independent Financial Adviser” or “Rainbow Capital”	Rainbow Capital (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2024 School Construction Framework Agreement, the transactions contemplated thereunder and the Annual Caps;
“Independent Shareholders”	Shareholders who will not be required under the Listing Rules to abstain from voting at the EGM;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time;
“Nanyuan Construction”	Sichuan Nanyuan Construction Co., Ltd. (四川南苑建設有限公司) (formerly known as Luzhou Nanyuan Construction Engineering Co., Ltd. (瀘州市南苑建築工程有限公司)), a limited liability company established in the PRC on 30 June 2000 and is wholly owned by Tianli Holding as at the date of this announcement;

“New School Construction Framework Agreement”	the agreement entered into between the Company and Nanyuan Construction on 16 April 2019 in relation to the provision of construction-related services by Nanyuan Construction to Tianli Education and its subsidiaries and schools;
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“RMB”	Renminbi yuan, the lawful currency of the PRC;
“Share(s)”	ordinary share(s) in the capital of the Company with a nominal value of HKD0.1 each;
“Shareholder(s)”	holder(s) of the Share(s);
“Tianli Education”	Shenzhou Tianli Education Investment Co., Ltd. (神州天立教育投資有限責任公司) (formerly known as Sichuan Shenzhou Tianli Education Investment Co., Ltd. (四川神州天立教育投資有限公司)), a limited liability company established in the PRC on 19 April 2013 and is the principal operating subsidiary of the Group. As at the date of this announcement, it is wholly owned by the Company; and
“Tianli Holding”	Shenzhou Tianli Holdings Group Limited (神州天立控股集團有限公司) (formerly known as Shenzhou Tianli Investment Group Limited (神州天立投資集團有限公司)), a limited liability company established in the PRC on 13 April 2006 and is indirectly owned as to approximately 75.80% by Mr. Luo Shi as at the date of this announcement.

By order of the Board
Tianli International Holdings Limited
Luo Shi
Chairman, Executive Director and Chief Executive Officer

The PRC, 17 July 2024

As at the date of this announcement, the Board comprises Mr. Luo Shi as chairman and executive Director and Mr. Wang Rui as executive Director, Mr. Zhang Wenzao and Mr. Pan Ping as non-executive Directors and Mr. Liu Kai Yu Kenneth, Mr. Yang Dong and Mr. Cheng Yiqun as independent non-executive Directors.

* *For identification purpose only*