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CHINA ZHONGDI DAIRY HOLDINGS COMPANY LIMITED

中國中地乳業控股有限公司

(A company incorporated under the laws of the Cayman Islands with limited liability)

(Stock code: 1492)

CONTINUING CONNECTED TRANSACTIONS

(1) RAW FRESH MILK SUPPLY FRAMEWORK AGREEMENT (2) MATERIALS PROCUREMENT FRAMEWORK AGREEMENT AND (3) FINANCIAL AND FACTORING SERVICES FRAMEWORK AGREEMENT

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



INTRODUCTION

The Board announces that on 4 September 2020 (after trading hours), (1) the Company and Yili Industrial entered into the Raw Fresh Milk Supply Framework Agreement in relation to the sale of raw fresh milk by the Group to the Yili Group; (2) the Company and Youran Dairy entered into the Materials Procurement Framework Agreement in relation to the purchase of materials by the Group from the Youran Dairy Group; and (3) the Company and Yili Industrial entered into the Financial and Factoring Services Framework Agreement in relation to the provision of financial and factoring services by the Yili Group to the Group.

IMPLICATIONS UNDER THE LISTING RULES

As at date of this announcement, Yili Industrial held 432,641,522 Shares through its wholly-owned subsidiary, Hongkong Jingang Trade Holding Co., Limited, representing approximately 16.6% of the issued share capital of the Company. Yili Industrial is the substantial Shareholder of the Company. An aggregate of 40% of equity interest of Youran Dairy are indirectly owned by Yili Industrial, thus Youran Dairy and its subsidiaries are associates of Yili Industrial under Chapter 14A of the Listing Rules. Therefore, Yili Industrial and Youran Dairy are connected persons of the Company, and the entering into of each of the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under each of the Framework Agreements exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder are therefore subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board announces that on 4 September 2020 (after trading hours), (1) the Company and Yili Industrial entered into the Raw Fresh Milk Supply Framework Agreement in relation to the sale of raw fresh milk by the Group to the Yili Group; (2) the Company and Youran Dairy entered into the Materials Procurement Framework Agreement in relation to the purchase of materials by the Group from the Youran Dairy Group; and (3) the Company and Yili Industrial entered into the Financial and Factoring Services Framework Agreement in relation to the provision of financial and factoring services by the Yili Group to the Group.

FRAMEWORK AGREEMENTS

Raw Fresh Milk Supply Framework Agreement

The principal terms of the Raw Fresh Milk Supply Framework Agreement are summarised as follows:

- Date: 4 September 2020 (after trading hours)
- Parties: (1) the Company; and
(2) Yili Industrial
- Term: From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022
- Subject matter: Pursuant to the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the Company agreed to supply and procure each member of the Group to supply raw fresh milk to members of the Yili Group, and the Yili Group shall be entitled to purchase and procure each member of the Yili Group to purchase raw fresh milk from the Group.

Subject to the terms and conditions of the Raw Fresh Milk Supply Framework Agreement, the Group and the Yili Group shall enter into further raw fresh milk purchase and sale agreements in respect of specific transaction terms (including but not limited to the quality, packaging, ordering and payment method of raw fresh milk) of the supply of raw fresh milk, respectively. In this regard, the Group and the relevant members of the Yili Group shall enter into raw fresh milk purchase and sale agreements for the next year during the period from October to December each year.

The form and substance of such raw fresh milk purchase and sale agreements shall be acceptable to both parties, and shall be in accordance with and in compliance with the principles, terms and conditions of the Raw Fresh Milk Supply Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the laws applicable to each of the parties' places of business).

The terms and conditions (including but not limited to the price) for the purchase of raw fresh milk by the Yili Group from the Group under the Raw Fresh Milk Supply Framework Agreement shall be fair and reasonable and on normal commercial terms, and shall be negotiated on an arm's length basis. The quality of raw fresh milk provided by the Group shall meet the requirements agreed by both parties and the price payable by the Yili Group shall also be fair and reasonable.

- Pricing principles:
1. Based on the type and quality of raw fresh milk, reference market price (including comparable local, domestic or international market price) is made. The business department of the Group will refer to the market prices of the industry through independent third parties such as industry associations; or
 2. In the event that none of the above prices is applicable or where it is not practicable to apply the above pricing policies, the Group will compare the quotations of similar raw fresh milk supplied by at least two independent third party suppliers to leading independent third party dairy enterprises in the PRC to ascertain the market price and negotiate with the Yili Group on an arm's length basis, taking into account the costs, technology, quality and procurement volume of raw fresh milk and the historical transaction prices of the relevant raw fresh milk, and determine the price on an arm's length basis and on terms no less favourable than those offered by the Group to leading independent third party dairy enterprises in the PRC for the supply of similar raw fresh milk;
 3. The purchase price of raw fresh milk shall be determined and adjusted based on market conditions and seasonal factors. After negotiation between the Group and the Yili Group, the final purchase price of raw fresh milk varies depending on the quality level. The quality of raw fresh milk supplied by the Group shall meet the standards set by the government and the requirements of the Yili Group.

Payment method: Payment shall be made pursuant to the raw fresh milk purchase and sale agreements to be further entered into between Yili Industrial (or members of the Yili Group) and the Company (or members of the Group) pursuant to the Raw Fresh Milk Supply Framework Agreement.

Reasons for and benefits of entering into the Raw Fresh Milk Supply Framework Agreement

Being one of the major suppliers of raw fresh milk in the PRC, the Group owns several 10,000-head dairy farms in the PRC's golden milk source belt. Through scientific management and large-scale operations, it can provide downstream enterprises with high-quality, large-scale and stable supply of raw fresh milk. Being the largest dairy product manufacturer in the PRC, the Yili Group is mainly engaged in the processing, manufacturing and sales of various dairy products and healthy drinks. In order to meet the demand for dairy production, the Yili Group also needs a stable and high-quality source of raw fresh milk supply.

The Group has been maintaining a continuous and good business relationship with the Yili Group in the supply of raw fresh milk. Upon Yili Industrial becomes a substantial Shareholder, maintaining the existing relationship between the sale and purchase of raw fresh milk can further exert the synergy effect between the upstream and downstream of the industrial chain. It can provide a stable sales channel for the Group, smooth the volatility of market sales and revenue, and enhance the Group's ability to resist risks at the same time which is conducive to maintaining the Group's competitiveness in the supply of high-quality raw fresh milk, and is in the interest of the Shareholders of the Group as a whole.

Historical transaction amount

The transaction amount for the sale of raw fresh milk by the Group to the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were RMB 439.6 million, RMB668.8 million, RMB1,363.1 million and RMB677.0 million, respectively.

Proposed annual caps

The Directors propose that the annual caps for the sale of raw fresh milk by the Group to the Yili Group under the Raw Fresh Milk Supply Framework Agreement for the three years ending 31 December 2020, 2021 and 2022 and the basis of determination are as follows:

| | For the year ending 31 December 2020 (RMB) | For the year ending 31 December 2021 (RMB) | For the year ending 31 December 2022 (RMB) |
|---|--|--|--|
| Maximum aggregate transaction amount for the year | 573,000,000 | 2,140,000,000 | 2,440,000,000 |

In arriving at such annual caps, the Directors have considered the following factors:

- (1) the expected increase in sales volume of raw fresh milk to the Yili Group;
- (2) the potential increase in the price of dairy products in the PRC;
- (3) the historical and prevailing purchase price for raw fresh milk paid by the Yili Group;
- (4) the historical transaction amount of raw fresh milk sold by the Group to the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, respectively, as stated above; and
- (5) the future market trends forecasted by the Company.

MATERIALS PROCUREMENT FRAMEWORK AGREEMENT

The principal terms of the Materials Procurement Framework Agreement are summarised as follows:

Date: 4 September 2020 (after trading hours)

Parties: (1) the Company; and
(2) Youran Dairy

Term: From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022

Subject matter: The Company agreed to purchase and procure each member of the Group to purchase the materials (including but not limited to feed, veterinary drugs and bath fluid) from members of the Youran Dairy Group pursuant to the terms and conditions of the Materials Procurement Framework Agreement. The Youran Dairy Group shall be entitled to provide and procure each member of the Youran Dairy Group to provide the materials to the Group pursuant to the terms and conditions of the Materials Procurement Framework Agreement.

Subject to the terms and conditions of the Materials Procurement Framework Agreement, the Youran Dairy Group and the Group shall further enter into specific agreements in respect of the purchase of each type of the materials so as to agree the specific transaction terms thereof.

The form and substance of such specific agreements must be acceptable to both parties, and must be in accordance with and in compliance with the principles, terms and conditions of the Materials Procurement Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the laws applicable to each of the parties' places of business).

The terms and conditions (including but not limited to the price) for the purchase of materials by the Group from the Youran Dairy Group under the Materials Procurement Framework Agreement shall be fair and reasonable, determined on normal commercial terms and negotiated on an arm's length basis. The quality of the materials provided by the Youran Dairy Group shall meet the requirements agreed by both parties and the price payable by the Group shall be fair and reasonable.

Pricing principles: 1. If tender process is required, the tender price shall prevail;

2. If there is no tender process, reference shall be made to the market price (including comparable local, domestic or international market prices) based on the type and quality of the materials. The business departments of the Group and the Youran Dairy Group shall refer the industry market prices through independent third parties such as industry associations; or

3. In the event that none of the above prices is applicable or it is not practicable to apply the above pricing policies, the Group will compare the quotations for similar materials by at least two independent third party suppliers and negotiate with the Youran Dairy Group on an arm's length basis after taking into account the cost, technology, quality and procurement volume of the materials and the historical transaction prices of the relevant materials, and determine the price on an arm's length basis and on terms no less favourable than those purchased by the Group from independent third parties for similar materials.

Packaging and transportation: The Youran Dairy Group shall be responsible for providing proper packaging for the materials and transporting the materials to the designated locations of the Group.

Payment method: Payment shall be made pursuant to the specific agreements to be further entered into between Youran Dairy (or members of the Youran Dairy Group) and the Company (or members of the Group) pursuant to the Materials Procurement Framework Agreement.

Reasons for and benefits of entering into the Materials Procurement Framework Agreements

In view of the continuous demand for feed and materials for farm operation, the Group believes that through the long-term business relationship established with the Youran Dairy Group, it can ensure the quality of the products provided by the other party and meet business needs. This continuing relationship is expected to bring synergy effect to both parties.

Historical transaction amount

The transaction amount of materials purchased by the Group from the Youran Dairy Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were RMB77.9 million, RMB134.7 million, RMB218.1 million and RMB93.2 million, respectively.

Proposed annual caps

The Directors propose that the annual caps for the Group to purchase materials from the Youran Dairy Group under the Materials Procurement Framework Agreement for the three years ending 31 December 2020, 2021 and 2022 and the basis of determination are as follows:

| | For the year ending 31 December 2020 (RMB) | For the year ending 31 December 2021 (RMB) | For the year ending 31 December 2022 (RMB) |
|---|---|---|---|
| Maximum aggregate transaction amount for the year | 100,000,000 | 300,000,000 | 350,000,000 |

In determining such annual caps, the Directors have considered the following factors:

- (1) the respective historical transaction amount of materials purchased by the Group from the Youran Dairy Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 (as mentioned above); and
- (2) the forecast of the future market trends.

FINANCIAL AND FACTORING SERVICES FRAMEWORK AGREEMENT

The principal terms of the Financial and Factoring Services Framework Agreement are summarised as follows:

- Date: 4 September 2020 (after trading hours)
- Parties: (1) The Company; and
(2) Yili Industrial
- Term: From the date of its consideration and approval at the EGM by the independent Shareholders to 31 December 2022
- Subject matter: The parties have agreed that, pursuant to the terms and conditions of the Financial and Factoring Services Framework Agreement, the members of the Yili Group shall provide financial and factoring services to the members of the Group. When the Group sells goods or provides services to a buyer (as the debtor), the Group can apply for factoring facility services from the Yili Group base on receivables from the transactions with such buyer (as the debtor).

Subject to the compliance of terms and conditions of the Financial and Factoring Services Framework Agreement, each of the Yili Group and the Group shall further enter into specific contracts in relation to the provision of financial and factoring services (including but not limited to principal, interest rate, term and guarantee type, etc.), so as to agree the specific transaction terms thereof.

The format and substance of such specific contracts shall be acceptable by both parties, and shall be in accordance with and in compliance with the principles, terms and conditions under the Financial and Factoring Services Framework Agreement and the relevant laws (including but not limited to the Listing Rules and the requirements under the laws applicable to each of the parties' places of business).

The terms and conditions of the provision of financial and factoring services by the Yili Group to the Group under the Financial and Factoring Services Framework Agreement shall be fair and reasonable and determined on normal commercial terms and negotiated on an arm's length basis. The financial and factoring services provided by the Yili Group shall comply with the requirements agreed by both parties, and the price payable by the Group shall also be fair and reasonable.

Pricing principles: To determine the market price, the Group will compare the quotes from at least two independent third party banks or financial institutions in relation to similar financial service and compare them with Loan Prime Rate issued by National Interbank Funding Center. The Group will negotiate with the Yili Group on arm's length basis after considering factors such as the financial requirement from the Group, the financial position of the Group and the settlement schedule and calculate the price on a fair basis, and shall be determined on the terms that is no less favourable than those of similar financial services offered by independent third parties to the Group (including but not limited to principal, interest rate, term and guarantee type).

Payment method: Payment shall be made pursuant to the specific agreements to be further entered into between Yili Industrial (or members of the Yili Group) and the Company (or members of the Group) under the Financial and Factoring Services Framework Agreement.

Reasons for and benefits of entering into the Financial and Factoring Services Framework Agreement

Being a substantial Shareholder and important business partner of the Group, Yili Industrial has a strong capital base and financing capabilities. The financial and factoring services provided by the Yili Group to the Group will be able to exert the synergy effect of the cooperation between the two parties, helping the Group expand its financing channels, relieve capital pressure, and provide financial support for farm operation and construction of milk source, which is conducive to the long-term development of the Group and the interest of the Shareholders as a whole.

Historical transaction amounts

The maximum daily balance from the factoring services provided to the Group by the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 amounted to RMB0, RMB502.0 million, RMB533.3 million and RMB516.3 million, respectively.

Proposed annual caps

The Directors propose that the maximum daily balance for the provision of financial and factoring services to the Group by the Yili Group under the Financial and Factoring Services Framework Agreement for the three years ended 31 December 2020, 2021 and 2022 and the basis of determination are as follows:

| | For the year ending 31 December 2020 (RMB) | For the year ending 31 December 2021 (RMB) | For the year ending 31 December 2022 (RMB) |
|-----------------------|---|---|---|
| Maximum daily balance | 800,000,000 | 800,000,000 | 800,000,000 |

In determining such annual caps, the Directors have considered the following factors:

- (1) the historical transaction amount of factoring services provided to the Group by the Yili Group for the three years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020; and
- (2) the financing demand of the Group.

INFORMATION ON THE PARTIES

The Group

The Company is a modern agricultural and animal husbandry enterprise which is mainly engaged in dairy farming in the PRC. The Group's business models cover participating in multiple stages of the dairy farming industry value chain, including raising dairy cows, breeding dairy cows, premium raw fresh milk production and sale, importing and selling dairy cows of quality breeds and breeding stock, as well as import trading business in alfalfa hay and other animal husbandry-related products.

Youran Dairy

Youran Dairy is a limited liability company incorporated in the PRC, and is principally engaged in dairy cow breeding, quality breed breeding, feed research and development, forage planting, purchase and sales, agricultural technology training and other businesses.

Yili Industrial

Yili Industrial is a limited liability company incorporated in the PRC, the shares of which are listed on the Shanghai Stock Exchange in the PRC (stock code: 600887). Yili Industrial is a dairy product enterprise with the largest scale and most comprehensive product categories in the PRC. It is principally engaging in the processing, manufacturing and sales of various dairy products and healthy beverages. It has several major product series, comprising of liquid milk, milk beverages, milk powder, yogurt, frozen beverages, cheese, milk fat and packaged drinking water.

IMPLICATIONS UNDER THE LISTING RULES

As at date of this announcement, Yili Industrial held 432,641,522 Shares through its wholly-owned subsidiary, Hongkong Jingang Trade Holding Co., Limited, representing approximately 16.6% of the issued share capital of the Company. Yili Industrial is the substantial Shareholder of the Company. An aggregate of 40% of equity interest of Youran Dairy are indirectly owned by Yili Industrial, thus Youran Dairy and its subsidiaries are associates of Yili Industrial under Chapter 14A of the Listing Rules. Therefore, Yili Industrial and Youran Dairy are connected persons of the Company, and the entering into of each of the Framework Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all the applicable percentage ratios under the Listing Rules in respect of the highest proposed annual caps under each of the Framework Agreements exceed 5%, the entering into of each of the Framework Agreements and the transactions contemplated thereunder are therefore subject to the reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

DIRECTORS' CONFIRMATIONS

No Director is materially interested in the transactions contemplated under each of the Framework Agreements and is required to abstain from voting on the Board resolutions approving each of the Framework Agreements and the transactions contemplated thereunder.

In light of the factors mentioned above, the Directors (excluding the independent non-executive Directors, whose view will be set out in the letter from the Independent Board Committee to be included in the circular) are of the view that the continuing connected transactions under each of the Framework Agreements are entered into on normal commercial terms after arm's length negotiations and in the ordinary course of business of the Group, are in the interests of the Company and the Shareholders as a whole, and that the terms of each of the Framework Agreements (including the proposed annual caps) are fair and reasonable.

The opinions of the independent non-executive Directors in respect of each of the Framework Agreements, the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022 will be formed after taking into account the advice to be provided by the Independent Financial Adviser, which will be set out in the circular to be despatched to the Shareholders on or before 24 September 2020.

THE EGM

At the EGM, ordinary resolution(s) will be proposed for the independent Shareholders to consider and, if thought fit, approve the Framework Agreements, the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022. As Yili Industrial is a substantial Shareholder of the Company, and has substantial interest in the continuing connected transactions, thus Yili Industrial and its associate shall abstain from voting on these resolutions.

Opus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders, and the Independent Board Committee has been established to advise the independent Shareholders in respect of the each of the Framework Agreements, the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022.

A circular containing, among other things, (1) details of each of the Framework Agreements and the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022; (2) a letter of advice from the Independent Financial Advisor to the Independent Board Committee and independent Shareholders in relation to such matters; (3) the recommendation of the Independent Board Committee in relation to such matters, and (4) the notice convening the EGM, will be despatched to the Shareholders on or before 24 September 2020.

DEFINITIONS

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

| | |
|-----------------------|---|
| “associate(s)” | has the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “Company” | China ZhongDi Dairy Holdings Company Limited (中國中地乳業控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 24 April 2014, the shares of which are listed on the Stock Exchange |
| “connected person(s)” | 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 and any adjournment to be convened and held, for the purpose of approving, if thought fit, the Framework Agreements, the transaction contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022 |

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| “Financial and Factoring Services Framework Agreement” | the financial and factoring services framework agreement entered into by the Company and Yili Industrial on 4 September 2020 in relation to the provision of financial and factoring services by the Yili Group to the Group |
| “Framework Agreements” | collectively, the Raw Fresh Milk Supply Framework Agreement, the Materials Procurement Framework Agreement and the Financial and Factoring Services Framework Agreement |
| “Group” | the Company and its subsidiaries and associate(s) |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Independent Board Committee” | the independent board committee comprising all independent non-executive Directors, to advise the independent Shareholders on the Framework Agreements, the transaction contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022 |
| “Independent Financial Adviser” or “Opus Capital” | Opus Capital Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities, being the independent financial adviser to the Independent Board Committee and the independent Shareholders in respect of the Framework Agreements, the transactions contemplated thereunder and the proposed annual caps for such transactions for the three years ending 31 December 2020, 2021 and 2022 |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Materials Procurement Framework Agreement” | the materials procurement framework agreement entered into by the Company and Youran Dairy on 4 September 2020 in relation to the purchase of materials from the Youran Dairy Group by the Group |
| “PRC” | the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| “Raw Fresh Milk Supply Framework Agreement” | the raw fresh milk supply framework agreement entered into by the Company and Yili Industrial on 4 September 2020 in relation to the sale of raw fresh milk to the Yili Group by the Group |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Shareholder(s)” | the holder(s) of the Shares |
| “Share(s)” | the ordinary share(s) with par value of US\$0.00001 each in the share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

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|----------------------|--|
| “Yili Group” | Yili Industrial and its subsidiaries and associate(s) |
| “Yili Industrial” | Inner Mongolia Yili Industrial Group Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600887) |
| “Youran Dairy” | Inner Mongolia Youran Dairy Co., Ltd., a company incorporated in the PRC with limited liability, an aggregate of 40% of its equity interest are indirectly owned by Yili Industrial |
| “Youran Dairy Group” | Inner Mongolia Youran Dairy Group and its subsidiaries and associate(s) |
| “%” | per cent |

On behalf of the Board
China ZhongDi Dairy Holdings Company Limited
Zhang Jianshe
Chairman

Hong Kong, 4 September 2020

As at the date of this announcement, the Board comprises Mr. Zhang Jianshe and Mr. Zhang Kaizhan as executive Directors; Mr. Liu Dai, Mr. Du Yuchen, Mr. Li Jian and Ms. Yu Tianhua as non-executive Directors; and Prof. Li Shengli, Dr. Zhang Shengli and Mr. Zhang Juying Jerry as independent non-executive Directors.