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## **Kimou Environmental Holding Limited**

### **金茂源環保控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 6805)**

## **CONTINUING CONNECTED TRANSACTIONS — THE LEASE AND RELATED AGREEMENTS**

The Board announces that on 20 August 2021, the Group entered into the Lease and Related Agreements with the Lessee which comprises of (1) the Lease Contract entered into between Tianjin Jinhua, a non-wholly owned subsidiary of the Company, as lessor, and the Lessee, as lessee, in relation to the leasing of the Land for a term of 20 years to the Lessee; (2) the Environmental Service Contract entered into between Tianjin Bingang, a subsidiary of the Company, and the Lessee in relation to the provision of certain environmental professional technical services to the Lessee in relation to the Land for a term of 5 years; and (3) the Wastewater Treatment and Utilities Service Contract entered into between Tianjin Bingang and the Lessee in relation to the provision of wastewater treatment and utilities service to the Lessee in relation to the Land for a term of 5 years. The Lease and Related Agreements are related to the lease by the Group to the Lessee of the Land situated in Tianjin Bingang Park, one of the Group's electroplating industrial parks.

### **LISTING RULES IMPLICATIONS**

As Mr. Zhang is an executive Director and chairman of the Board and the controlling shareholder of the Company indirectly holding approximately 42.75% of the issued shares of the Company, and the Lessee is a subsidiary of an associate of Mr. Zhang the Lessee is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Lease and Related Agreements will constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the annual caps of the transactions contemplated under the Lease and Related Agreements (on aggregate basis) exceeds 0.1% and is less than 5%, the transactions contemplated under the Lease and Related Agreements are subject to the announcement, reporting and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

According to Rule 14A.52 of the Listing Rules, the duration of an agreement for a continuing connected transactions must not exceed three years except in special circumstances where the nature of the transaction requires the Lease and Related Agreements to be of a duration longer than three years. Accordingly, Gram Capital has been appointed as the Independent Financial Adviser to explain why longer terms for the Lease and Related Agreements are required and to confirm that it is normal business practice for agreements of such type to be of such duration.

The Board announces that on 20 August 2021, the Group entered into the Lease and Related Agreements with the Lessee which comprises of (1) the Lease Contract; (2) the Environmental Service Contract; and (3) the Wastewater Treatment and Utilities Service Contract. The Lease and Related Agreements are related to the lease by the Group to the Lessee of the Land situated in Tianjin Bingang Park, one of the Group's electroplating industrial parks. The principal terms of each of the Lease and Related Agreements are set out below.

## **THE LEASE AND RELATED AGREEMENTS**

### **(A) Lease Contract**

*Date* 20 August 2021

*Parties* (1) Tianjin Jinhua, a non-wholly owned subsidiary of the Company, as lessor; and  
(2) the Lessee, as lessee.

*Subject matter*

Pursuant to the Lease Contract, Tianjin Jinhua shall grant the right of land use of the Land to the Lessee during the Term (as defined below). The Lessee shall, at its own cost, construct the factory buildings and supporting facilities and equipment on the Land, whereupon the real property rights of the buildings and real property constructed thereon shall belong to Tianjin Jinhua, and the Lessee shall have the right of use to such buildings and real property during the Term.

The Land is a parcel of land situated in Tianjin Bingang Park, one of the Group's electroplating industrial parks, with an aggregate site area of approximately 33,000 square metres. Pursuant to the Lease Contract, the factory buildings to be constructed on the Land shall have an aggregate building area of approximately 29,000 square metres.

*Usage*

Industrial use/non-residential use.

### *Term*

The Lease Contract has a term of 20 years (“**Term**”) commencing from 20 August 2021 and ending on 19 August 2041 (both dates inclusive).

Pursuant to the Lease Contract, after the expiration of the Term, the Lessee shall enjoy a priority right to lease the Land under the same conditions that Tianjin Jinhuaadu would continue to lease.

### *Rent*

Under the Lease Contract, the rent for the right of use of the Land payable by the Lessee commencing on 1 July 2022 are set out as follows:

- (1) for the five years commencing on 1 July 2022 and ending on 30 June 2027 (both dates inclusive), the monthly rent shall be RMB163,677.50;
- (2) for the five years commencing on 1 July 2027 and ending on 30 June 2032 (both dates inclusive), the monthly rent shall be RMB180,045.25;
- (3) for the five years commencing on 1 July 2032 and ending on 30 June 2037 (both dates inclusive), the monthly rent shall be RMB198,049.78; and
- (4) for the four years one month and 19 days commencing on 1 July 2037 and ending on 19 August 2041 (both dates inclusive), the monthly rent shall be RMB218,018.43.

### *Management fee*

A monthly management fee of RMB65,471, which shall be payable by the Lessee commencing on 20 August 2021 during the Term.

### *Security deposit*

A security deposit of RMB982,068 shall be paid by the Lessee to Tianjin Jinhuaadu within 10 business days upon the signing of the Lease Contract. Upon completion of the inspection and acceptance of the factory buildings constructed on the Land, the payment for the construction of the factory buildings has been settled, and the real property ownership certificate thereof has been issued, Tianjin Jinhuaadu shall return the security deposit, free of interest, to the Lessee in full.

### *Other terms*

Pursuant to the Lease Contract, all wastewater discharged in the electroplating processes from the Land shall be collected and treated by the facilities of Tianjin Bingang and the Lessee shall abide with the safety measures and environmental management of Tianjin Bingang. At the same time of the signing of the Lease Contract, the Lessee shall also enter into the Environmental Service Contract and the Wastewater Treatment and Utilities Service Contract with Tianjin Bingang and comply with the terms therein.

## **(B) Environmental Service Contract**

*Date* 20 August 2021

*Parties* (1) Tianjin Bingang, a non-wholly owned subsidiary of the Company; and  
(2) the Lessee.

### *Subject matter*

Pursuant to the Environmental Service Contract, Tianjin Bingang, as the operator of Tianjin Bingang Park, shall provide environmental professional technical services to the Lessee in relation to the Land including but not limited to: (a) research and development of relevant professional technologies for the operation and management of Tianjin Bingang Park; (b) provision of standardised and process-oriented guiding services for the Lessee's planning and layout, process design, environmental and safety management, and public management of the Land; (c) provision of services assisting the Lessee in improving the safety and environmental awareness and daily management level of its management team; and (d) provision of service platform for labour, finance, materials, and promoting exchanges and cooperation between the Lessee and related units.

### *Term*

The Environmental Service Contract has a term of 5 years from 20 August 2021 to 19 August 2026 (both dates inclusive).

### *Service fee*

Under the Environmental Service Contract, the service fees payable by the Lessee shall be in the sum of RMB261,884 per month for the period from 1 July 2022 to 19 August 2026.

## **(C) Wastewater Treatment And Utilities Service Contract**

*Date* 20 August 2021

*Parties* (1) Tianjin Bingang, a non-wholly owned subsidiary of the Company; and  
(2) the Lessee.

### *Subject matter*

Pursuant to the Wastewater Treatment and Utilities Service Contract, Tianjin Bingang, as the operator of Tianjin Bingang Park, shall provide wastewater treatment and utilities service to the Lessee in relation to the Land such as (a) centralised wastewater treatment, recycling and discharge; (b) water, steam and electricity supply; and (c) utilities maintenance.

### *Term*

The Wastewater Treatment and Utilities Service Contract has a term of 5 years from 20 August 2021 and ending on 19 August 2026 (both dates inclusive).

### *Fees charged*

Under the Wastewater Treatment and Utilities Service Contract, the fees payable by the Lessee shall be paid on a monthly basis as follows:

- (1) wastewater treatment — for provision of wastewater treatment services the fees are calculated based on the (a) type of the pollutant to be treated or recycled and (b) volume of water used on the Land;
- (2) water, steam and electricity supply — for supply of water (including tap water, recycled water and purified water), steam and electricity, calculated based on amount of water, steam and electricity consumed; and
- (3) utilities maintenance — for maintenance of public facilities in the industrial park.

Under the Wastewater Treatment and Utilities Service Contract, in the event of national macro policy adjustments or changes in national environmental protection requirements, expansion of environmental governance management service projects, increase in production and operation costs or increase in price index, Tianjin Bingang has the right to adjust the charging rates under the Wastewater Treatment and Utilities Service Contract and the Lessee shall accept and pay according to such adjusted charging rates.

## **ANNUAL CAPS**

The proposed annual caps for the transactions under the Lease and Related Agreements during their respective terms (up to the year ending 31 December 2026) are set out below:

<b>For the year ending 31 December</b>	<b>The Lease Contract (RMB)</b>	<b>Environmental Service Contract (RMB)</b>	<b>The Wastewater Treatment and Utilities Service Contract (RMB)</b>	<b>Total (RMB)</b>
2021 <i>(Note)</i>	327,335.00	—	6,100,000.00	6,427,335.00
2022	1,767,717.00	1,571,304.00	17,000,000.00	20,339,021.00
2023	2,749,782.00	3,142,608.00	17,000,000.00	22,892,390.00
2024	2,749,782.00	3,142,608.00	17,000,000.00	22,892,390.00
2025	2,749,782.00	3,142,608.00	17,000,000.00	22,892,390.00
2026	2,749,782.00	2,095,072.00	11,000,000.00	15,844,854.00

*Note:* Under the terms of the Lease Contract and the Environmental Service Contract, the respective rent/fees payable by the Lessee shall commence on 1 July 2022 while the management fee under the Lease Contract shall be payable by the Lessee commencing on 20 August 2021.

The annual rental and management fee payable under the Lease Contract for the period commencing on 1 January 2027 and ending on 19 August 2041 are as follows:

<b>For the year ending 31 December</b>	<b>Annual Rental and Management Fee (RMB)</b>
2027	2,847,988.50
2028	2,946,195.00
2029	2,946,195.00
2030	2,946,195.00
2031	2,946,195.00
2032	3,054,222.15
2033	3,162,249.30
2034	3,162,249.30
2035	3,162,249.30
2036	3,162,249.30
2037	3,282,061.23
2038	3,401,873.16
2039	3,401,873.16
2040	3,401,873.16
2041 (up to and including 19 August 2041)	2,267,915.44

The fees to be charged under the Related Agreements (if they are renewed) after the expiry of the Related Agreements will be negotiated by the parties with reference to the then prevailing market rates of the fees that will be charged by the Group to its customers who are Independent Third Parties.

The above annual caps were determined by reference to, among other things: (a) the rent and management fees payable under the terms of the Lease Contract; (b) the service fees payable under the terms of the Environmental Service Contract; (c) the expected fees chargeable under the Wastewater Treatment and Utilities Service Contract based on the expected wastewater treatment, utilities supply and maintenance required by the facilities on the Land and estimated based on (i) the expected scale of operation of the factories on the Land based on the site area and building area of the Land; (ii) comparable rates paid by other tenants in Tianjin Bingang Park; (iii) usage of wastewater treatment and utilities service by other tenants in Tianjin Bingang Park; and (iv) a buffer for any unanticipated fluctuations of any unexpected fees and charges chargeable under the Wastewater Treatment and Utilities Service Contract.

## **INFORMATION OF THE PARTIES TO THE LEASE AND RELATED AGREEMENTS**

### **The Group**

The Group principally engages in providing wastewater treatment and other ancillary services for the development and operation of electroplating industrial parks. Tianjin Jinhua is a wholly-owned subsidiary of Tianjin Bingang, a subsidiary of the Company

owned as to 51% by the Group Tianjin Bingang, together with its subsidiaries, is principally engaged in the operation of Tianjin Bingang Park, one of the Group's electroplating industrial parks located in Tianjin, the PRC.

### **The Lessee**

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries: (i) the Lessee is a company established in the PRC with limited liability and principally engaged in metal surface treatment, heat treatment processing and electroplating processing, etc.; and (ii) the Lessee is owned as to 33% by Mr. Zhang, 11% by Mr. Xu Yunfeng (徐云豐), 11% by Smart Ample Corporation Limited, a company incorporated in Hong Kong with limited liability, 20.25% by Mr. Liu Hanchen (劉漢臣), 9.9% by Mr. Zhao Laiyong (趙來勇), 8.1% by Mr. An Shiqi (安士啟), 4.95% by Mr. Qi Jianshun (祁建順) and 1.8% by Mr. Pan Liangru (潘良儒).

As Mr. Zhang is an executive Director and chairman of the Board and the controlling shareholder of the Company indirectly holding approximately 42.75% of the issued shares of the Company, and the Lessee is a subsidiary of an associate of Mr. Zhang, the Lessee is therefore a connected person of the Company under the Listing Rules. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, other shareholders of the Lessee and their ultimate beneficial owners (where applicable) are Independent Third Parties.

### **REASONS FOR AND BENEFITS OF THE ENTERING INTO THE LEASE AND RELATED AGREEMENTS**

The Group is principally engaged in providing wastewater treatment and other ancillary services for the development and operation of electroplating industrial parks. Tianjin Bingang Park is one of the Group's electroplating industrial parks located in Tianjin, the PRC which is operated by Tianjin Bingang and its subsidiaries.

The entering into of the Lease Contract to lease the Land, situated in Tianjin Bingang Park, will enable the Group to secure a tenant to lease a relative sizable space in the industrial park and provide steady rental income and increase the occupancy rate of the Tianjin Bingang Park. The management considered that for the lease under the Lease Contract, taking into account the size of the Land and that under the Lease Contract the Lessee shall construct the factory buildings and supporting facilities and equipment on the Land at its own cost, it is reasonable for the Lessee to secure a long period of the term of the lease so as to recover the related investment and construction costs.

It is a standard practice of the Group that at the same time of leasing to a tenant in its industrial parks, the Group would require the entering into of an agreement for the Group to provide environmental professional technical services to the tenant and an agreement requiring the tenant to use the wastewater treatment and utilities service provided by the Group in the industrial parks. As such, the Group considered that entering into of the Related Agreements together with the Lease Contract part and parcel of the lease of the Land offered to the Lessee. For the term of the Related Agreements, it is expected that after the expiry of the respective current term under the Environmental Service Contract and the Wastewater Treatment and Utilities Service Contract, the Group will enter into new agreements with the tenant to provide the environmental professional technical services and

wastewater treatment and utilities services so long as the Lessee is the tenant of the Land. The Group considered that having a shorter terms of the Related Agreements than the lease of the Land can provide sufficient flexibility to cater for any unanticipated fluctuations of raw materials and energy costs in the future, which may at the same time require adjustments to the environmental professional technical services fee, the wastewater treatment and utilities service fees to be charged to the Lessee. The Company will comply with the relevant Listing Rules requirements in respect of the transactions contemplated under the abovementioned environment service agreement(s) and wastewater treatment and utilities service agreement(s) when such materialises.

The terms of the Lease and Related Agreements were arrived at after an arm's length negotiation between the Group and the Lessee with reference to, where applicable, the prevailing market price for agreements of a similar nature and the prevailing terms of leases and related agreements offered by the Group to the tenants in its industrial parks and the particular nature of the Lease. The Board (excluding Mr. Zhang but including all independent non-executive Directors) considers the transactions contemplated under the Lease and Related Agreements are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and the terms of the Lease and Related Agreements (including the rent/fees and the proposed annual caps) are on normal commercial terms and fair and reasonable so far as the independent Shareholders are concerned.

## **LISTING RULES IMPLICATIONS**

As Mr. Zhang is an executive Director and chairman of the Board and the controlling shareholder of the Company indirectly holding approximately 42.75% of the issued shares of the Company, and the Lessee is a subsidiary of an associate of Mr. Zhang, the Lessee is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions contemplated under the Lease and Related Agreements will constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Since the highest applicable percentage ratio (as defined under the Listing Rules) in respect of the annual caps of the transactions contemplated under the Lease and Related Agreements (on aggregate basis) exceeds 0.1% but is less than 5%, the transactions contemplated under the Lease and Related Agreements are subject to the announcement, reporting and annual review requirements but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Directors confirmed that, save for Mr. Zhang, none of them have a material interest in the Lease and Related Agreements and the transactions contemplated thereunder. As such, Mr. Zhang had not participated in the discussions of the relevant resolution in the relevant Board meeting and abstained from voting on the Board resolution on approving the Lease and Related Agreements and the transactions contemplated thereunder.

According to Rule 14A.52 of the Listing Rules, the duration of each of the Lease and Related Agreements must not exceed three years except in special circumstances where the nature of the transaction requires the Lease and Related Agreements to be of a duration longer than three years. Accordingly, Gram Capital has been appointed as the Independent Financial Adviser to explain why longer terms for the Lease and Related Agreements are



required and to confirm that it is normal business practice for agreements of such type to be of such duration. The opinion of the Gram Capital is set out in the section headed “Opinion from Gram Capital” in this announcement below.

## **OPINION FROM GRAM CAPITAL**

### **Lease Contract**

In assessing the reasons for the duration of the Lease Contract to be longer than three years, Gram Capital considered the following factors:

(i) *Lessee’s construction*

As advised by the Directors, the management considered that for the lease under the Lease Contract, taking into account the size of the Land and that under the Lease Contract the Lessee shall construct the factory buildings and supporting facilities and equipment on the Land at its own cost, it is reasonable for the Lessee to secure a long period of the term of the lease so as to recover the related investment and construction costs.

(ii) *Long-term rental income*

The entering into of the Lease Contract to lease the Land, situated in Tianjin Bingang Park, will enable the Group to secure a tenant to lease a relative sizable space in the industrial park and provide steady rental income and increase the occupancy rate of the Tianjin Bingang Park.

In considering whether it is normal business practice for agreements of similar nature (i.e. lease of land) to the Lease Contract to have a term of such duration, Gram Capital identified seven transactions announced by companies listed in Hong Kong or PRC, involving leasing of land with duration of more than three years. Gram Capital noted from those announcements that the terms of lease ranged from approximately 4 to 48 years.

Taking into account of the above, Gram Capital confirmed that the duration of the Lease Contract which is longer than three years is required and it is normal business practice for the Lease Contract to be of such duration.

### **Related Agreements**

In assessing the reasons for the durations of the Related Agreements to be longer than three years, Gram Capital considered the following factors:

(i) *The Group’s standard practice*

The Directors also advised Gram Capital that it is a standard practice of the Group that at the same time of leasing to a tenant in its industrial parks, the Group would require the entering into of an agreement for the Group to provide environmental professional technical services to the tenant and an agreement requiring the tenant to use the wastewater treatment and utilities service provided by the Group in the industrial parks. As such, the Group considered that entering into of the Related Agreements together with the Lease Contract part and parcel of the lease of the Land offered to the Lessee.

The Directors also advised Gram Capital that it is the Group's usual practice to provide environmental professional technical services and wastewater treatment and utilities service of terms over three years. The Group previously entered into contracts with terms of 5 years for the provision of (i) environmental professional technical services; and (ii) wastewater treatment and utilities services, to Independent Third Parties.

(ii) *Flexibility to cater for any unanticipated fluctuations*

The Group considered that having shorter terms of the Related Agreements than the lease of the Land can provide sufficient flexibility to cater for any unanticipated fluctuations of raw materials and energy costs in the future, which may at the same time require adjustments to the environmental professional technical services fee, the wastewater treatment and utilities service fees to be charged to the Lessee.

In considering whether it is normal business practice for agreements of similar nature (i.e. provision of environmental professional technical services and wastewater treatment and utilities services) to the Related Agreements to have term of such duration, Gram Capital identified three transactions announced by a company listed in Hong Kong, involving wastewater/solid waste treatment services with duration of more than three years. Gram Capital noted from those announcements that the terms of projects ranged from 20 to 30 years.

In addition, Gram Capital also obtained copies of certain contracts that the Group previously entered into with Independent Third Parties for the provision of (i) environmental professional technical services; and (ii) wastewater treatment and utilities service, which have terms of 5 years.

Taking into account of the above, Gram Capital confirmed that the durations of the Related Agreements which are longer than three years are required and it is normal business practice for the Related Agreements to be of such duration.

## **DEFINITIONS**

In this announcement, unless the context otherwise requires, the following terms and expressions shall have the following meanings when used herein:

“Board”	the board of the Directors
“Business Day(s)”	any day(s) (other than a Saturday, a Sunday, public holiday) in the PRC
“Company”	Kimou Environmental Holding Limited (金茂源環保控股有限公司), a company incorporated in Cayman Islands with limited liability, the shares of which are listed on Main Board of the Stock Exchange
“connected person”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	the director(s) of the Company

“Environmental Service Contract”	the environmental professional technical service contract dated 20 August 2021 entered into between Tianjin Bingang and the Lessee in relation to the Land
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry on Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser in respect of the duration of the Lease and Related Agreements
“Independent Third Party(ies)”	third party(ies) independent of the Company and the connected persons of the Company
“Land”	a parcel of land situated at Tianjin Bingang High-tech Casting Industrial Zone, Jinghai District, Tianjin, the PRC with an aggregate site area of approximately 33,000 square metres
“Lease and Related Agreements”	collectively, the Lease Contract, the Environmental Service Contract and the Wastewater Treatment and Utilities Service Contract
“Lease Contract”	the right of land use lease contract dated 20 August 2021 entered into between Tianjin Jinhua and the Lessee in relation to the lease of the Land
“Lessee”	Tianjin Hongyue Environmental Technology Co., Ltd.* (天津洪躍環保科技有限公司), a company established in the PRC with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Zhang”	Mr. Zhang Lianghong, executive Director and chairman of the Board
“PRC”	the People’s Republic of China, which for the sole purpose of this announcement excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Related Agreements”	together, the Environmental Service Contract and the Wastewater Treatment and Utilities Service Contract

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of nominal value of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	the shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tianjin Bingang”	Tianjin Bingang Electroplating Enterprises Management Co., Ltd.* (天津濱港電鍍企業管理有限公司), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company as at the date of this announcement as to 51% indirectly by the Company and 49% by Independent Third Parties
“Tianjin Jinhuaadu”	Tianjin Jinhuaadu Waste Products Acquisition Co., Ltd.* (天津金華都廢品收購有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of Tianjin Bingang
“Wastewater Treatment and Utilities Service Contract”	the wastewater treatment and utilities service contract dated 20 August 2021 entered into between Tianjin Bingang and the Lessee in relation to the Land
“%”	per cent.

*In this announcement, amounts quoted in RMB have been converted into HK\$ or vice versa at the rate of RMB1 to HK\$1.18 for the purpose of illustration only. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

On behalf of the Board  
**Kimou Environmental Holding Limited**  
**Zhang Lianghong**  
*Chairman*

20 August 2021

*As at the date of this announcement, the Board comprises Mr. Zhang Lianghong (Chairman), Mr. Zhu Heping (Chief Executive Officer), Mr. Lee Yuk Kong and Mr. Huang Shaobo as executive Directors, and Mr. Li Xiaoyan, Mr. Li Yinquan and Mr. Kan Chung Nin, Tony SBS, JP as independent non-executive Directors.*

\* For identification purposes only