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北京京城機電股份有限公司
Beijing Jingcheng Machinery Electric Company Limited

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

(Stock Code: 0187)

**ANNOUNCEMENT ON THE EXTERNAL INVESTMENT BY
BEIJING TIANHAI INDUSTRY CO. LTD.,
A SUBSIDIARY OF THE COMPANY, IN ESTABLISHING
KUANCHENG TIANHAI PRESSURE VESSEL CO., LTD.**

The board of directors (hereinafter referred to as the “Board”) of the Company and all members of the Board warrant that this announcement does not contain any false information, misleading statement or material omission and accept joint and several responsibilities for the truthfulness, accuracy and completeness of the contents herein contained.

This is a voluntary announcement made by Beijing Jingcheng Machinery Electric Company Limited (hereinafter referred to as the “Company”).

Important notes:

- Name of the investment target: Kuancheng Tianhai Pressure Vessel Co., Ltd. (寬城天海壓力容器有限公司) (tentative name subject to the final approval of the industrial and commercial administrative authorities, hereinafter referred to as “Kuancheng Tianhai” or the “JV Co”).
- Langfang Tianhai High Pressure Containers Co., Ltd. (hereinafter referred to as “Langfang Tianhai”) is a subsidiary controlled by Beijing Tianhai Industry Co., Ltd. (hereinafter referred to as “Beijing Tianhai”), a subsidiary of the Company. Langfang Tianhai and Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd. (hereinafter referred to as “Kuancheng Shenghua”) signed a strategic cooperation letter of intent on 10 November 2016, and reached a consensus on the cooperative establishment of Kuancheng Tianhai. In principle, Langfang Tianhai invests by contributing manufacturing technology and facilities of impact extruded cylinders and large tube type cylinders while Kuancheng Shenghua invests by contributing land and plants in its existing plant areas and facilities available for this project. The shareholding of Langfang Tianhai accounts for 51–55% and the relevant shareholding is guaranteed by Beijing Tianhai. To guarantee the above shareholding principle, the shareholding can be adjusted by way of cash capital contribution. The registered

place of the JV Co is Kuancheng (for details, please refer to the Company's Announcement on the Entering into of the Strategic Cooperation Letter of Intent Between Langfang Tianhai High Pressure Containers Co., Ltd., an Indirect Subsidiary of the Company, and Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd (dated 14 November 2016)). In order to enhance the efficiency of the management of the JV Co, Langfang Tianhai, Beijing Tianhai and Kuancheng Shenghua reached the consensus that Langfang Tianhai and Kuancheng Shenghua will no longer cooperate on the aforementioned matter, but instead Beijing Tianhai and Kuancheng Shenghua will establish Kuancheng Tianhai Pressure Vessel Co., Ltd. in Kuancheng Manchu Autonomous County, Hebei Province, China.

- Amount and proportion of investment: Beijing Tianhai intends to establish a factory with Kuancheng Shenghua in Xiaolongxumen Village, Longxumen Town, Kuancheng Manchu Autonomous County, Hebei Province. The registered capital of Kuancheng Tianhai is RMB81,584,000, of which Beijing Tianhai contributes RMB49,847,800 in cash and the right of use of technologies, holding 61.1% equity interests, while Kuancheng Shenghua contributes RMB31,736,200 in specie, holding 38.9% equity interests.
- The term of cooperation is 20 years, starting from the date when the business license of Kuancheng Tianhai is issued.
- If Kuancheng Tianhai is not established before 30 June 2017 and the parties do not reach a written consensus on the extension of such date, the capital contribution agreement will be terminated.
- If the necessary environmental assessment report for the construction project of Kuancheng Tianhai is not obtained before 30 September 2017, or the necessary environmental impact assessment inspection for the manufacturing and operation of Kuancheng Tianhai is not completed and the sewage discharge permission is not obtained before 31 December 2017, Beijing Tianhai has the right to notify Kuancheng Shenghua and Kuancheng Tianhai in writing to dissolve the JV Co.
- Special risk warnings: The establishment of the JV Co by Beijing Tianhai complies with the needs and strategic planning for the development of the Company; but it still faces with risks from uncertainties in respect of market, operations and management.

I. OVERVIEW OF EXTERNAL INVESTMENT

i. General information of the external investment

Beijing Tianhai plans to adjust the product layout, and cooperate with Kuancheng Shenghua in the joint establishment of Kuancheng Shenghua in Kuancheng Manchu Autonomous County, Chengde City, Hebei Province to produce impact extruded cylinders and large tube type cylinders. On 6 April 2017, Beijing Tianhai and Kuancheng Shenghua signed a capital contribution agreement (hereinafter referred to as the "Capital Contribution Agreement") to establish Kuancheng Tianhai, with registered capital of RMB81,584,000. Beijing Tianhai intends to contribute RMB49,847,800 in cash and patent technologies and the right of use of patent technologies, holding 61.1% equity interests, while Kuancheng Shenghua contributes

RMB31,736,200 through land use rights, plants and existing equipment, holding 38.9% equity interests. After the establishment of Kuancheng Tianhai, the production line equipment of impact extruded cylinders and large tube type cylinders of Langfang Tianhai will be purchased, and some new equipment will be purchased for production. Beijing Tianhai intends to reduce production and staff costs through the mechanism of privately owned enterprises. Beijing Tianhai has advantages in respect of brand, technologies and quality while Kuancheng Shenghua has advantages in respect of cost management. Both parties complement each other's advantages, and integrate the resources.

ii. Consideration of the Board

The eighth session of the Board of the Company convened the 22nd interim meeting, at which the Proposal on the External Investment of Beijing Tianhai Industry Co. Ltd., a Subsidiary of the Company, in Establishing Kuancheng Tianhai Pressure Co., Ltd was considered and approved. The aforementioned matter is within the examination and approval authority of the Board, and needs not to be submitted to the Company's general meeting for approval.

iii. The external investment is not a connected transaction or material asset reorganization.

II. INFORMATION OF THE PARTIES TO THE CAPITAL CONTRIBUTION AGREEMENT

1. Beijing Tianhai Industry Co., Ltd.

Legal representative: Wang Jun

Registered address: No.9 Tianying North Road, Chaoyang District, Beijing

Registered capital: US\$61,401,800

Business scope: production of gas cylinders, accumulator, pressure vessels and auxiliary equipment, attachments, extinguishers, products and accessories of fire extinguishing system, gas cylinders for medical equipment, cylinders for buoyant apparatuses, gas cylinders for diet processing machines and accessories, gas cylinders for gas vehicles, winding cylinders and accessories, gas storage special containers, bundle devices, cryogenic gas cylinders and accessories, LNG cylinders and accessories, aluminum cores, cylinders and accessories, new enhanced composite materials (carbon fiber, organic fiber and high strength glass fiber) and products, composite gas cylinders (natural gas storage cylinder for vehicles, gas storage cylinders for respirator and water treatment containers), testing equipment for composite cylinders; provision of installation, testing, debugging, maintenance, technical consultancy and technical services for self-produced products; sales of self-produced products; wholesales of cryogenic storage and transportation containers and provision of aftersales and maintenance services; import and export of commodities and technologies and acting as import and export agency.

2. Kuancheng Shenghua Pressure Vessel Manufacturing Co., Ltd.

Legal representative: Ma Ze

Nature: limited liability company

Registered address: Xiaolongxumen Village, Longxumen Town, Kuancheng Manchu Autonomous County

Registered capital: RMB10 million

Principal businesses: manufacture and sale of seamless cylinders (steel only), welded cylinders (liquefied petroleum gas steel cylinders of less than 40 liters in volume only) and seamless steel tubes; export of products produced by the enterprise (except for goods and technologies restricted and prohibited by the state for import and export).

Kuancheng Shenghua initially occupies a site area of 45.31 acres, and has kept expanding its production scale by purchasing 147 acres of government-reserved land in Liangqianyuan Village. Seamless steel cylinder raw material workshops and five seamless steel cylinder production lines were newly added. A seamless steel tube production line was newly constructed. The annual production volume of cylinders in 2014 was 180,000, and after three years of continuous development, the current annual production capacity of seamless steel cylinders is 1,500,000. With the continuous increase in production capacity, annual sales volume increased from 180,000 in 2014 to 580,000 in 2016. Annual sales increased from RMB50 million in 2013 to RMB100 million in 2016. In 2016, its operating income was RMB118,460,000; net profit was RMB-36,456,000; as at 31 December 2016, total assets were RMB233,904,600; net assets were RMB-80,936,100.

To the best knowledge, information and belief of the directors of the Company, after having made all reasonable enquiries, Kuancheng Shenghua and its ultimate beneficial owners are third parties independent of the Company, Beijing Tianhai and any connected persons of the Company and Beijing Tianhai.

III. INFORMATION OF THE INVESTMENT TARGET

1. Intended name of the company: Kuancheng Tianhai Pressure Vessel Co., Ltd.
2. Intended registered capital: RMB81,584,000
3. Intended registered address: Xishangen, Xiaolongxumen Village, Longxumen Town, Kuancheng Manchu Autonomous County, Chengde City, Hebei Province
4. Intended business scope: manufacturing of B1 seamless cylinders (only steel seamless cylinders), sales of products produced by Kuancheng Tianhai, and import and export business of self-produced products (except those commodities restricted by the state for operation of companies or prohibited for import and export).

5. Intended methods of capital contribution: Beijing Tianhai contributes in cash and the right of use of technologies in an amount of RMB49,847,800, holding 61.1% equity interests, while Kuancheng Shenghua contributes RMB31,736,200 in specie, holding 38.9% equity interests.
6. Personnel arrangement of the board and the management:

The board of Kuancheng Tianhai consists of five directors, in which Beijing Tianhai nominates three directors while Kuancheng Shenghua nominates two directors by election during the general meeting. The board has a chairman who is delegated by Beijing Tianhai and is the legal representative of the Company. The term of office of directors is three years and may be re-elected upon expiry of the term.

Kuancheng Tianhai has no supervisory committee, and both shareholders shall each nominate one supervisor. The term of office of supervisors is three years and may be re-elected upon expiry of the term. Directors and the senior management shall not hold concurrent position as supervisors.

Kuancheng Tianhai has one general manager, who is nominated by Kuancheng Shenghua; one deputy general manager, one chief financial officer, one chief engineer, and one head of finance department, who are nominated by Beijing Tianhai; and one deputy head of finance department, who is nominated by Kuancheng Shenghua. The general manager, deputy general manager, chief financial officer and chief engineer shall be appointed by the board of Kuancheng Tianhai.

The information above shall be subject to the final review and approval of the competent authority.

IV. MAIN CONTENTS OF THE CAPITAL CONTRIBUTION AGREEMENT

- i. **The amounts, methods, proportion of shareholding and period of validity of capital contribution of the shareholders of Kuancheng Tianhai:**

Shareholder	Method of capital contribution		Amount of capital contribution (RMB)		Proportion of shareholding
Beijing Tianhai	Cash		First phase of capital contribution: 8,000,000	49,847,800	61.1%
			Second phase of capital contribution: 37,767,800		
	Right of use of technologies		4,080,000		
Kuancheng Shenghua	Specie	Land	9,215,800	31,736,200	38.9%
		Property, structures	21,571,300		
		Equipment	949,100		
Total			81,584,000		100%

1. The fulfillment of the obligation to contribute under the Capital Contribution Agreement is subject to the full realization of the following conditions precedent of contribution or the prior written exemption of the other party on the relevant conditions precedent of contribution not satisfied:
 - (1) The parties have signed the Capital Contribution Agreement and the relevant transaction documents;
 - (2) There is no valid prohibition or similar orders which may prohibit or restrict the parties from completing the capital contribution;
 - (3) The parties have completed the internal decision-making procedures and the approval procedures of the competent authorities on the capital contribution;
 - (4) The parties shall notify all third-party stakeholders of the capital contribution, and shall obtain the consent from third-party stakeholders, including but not limited to the notifying obligation which Kuancheng Shenghua shall fulfill in respect of the capital contribution under its loan contract and/or the acquisition of consent of the third parties (if applicable);
 - (5) Each party continues to operate its existing operations under normal conditions, and there are no significant adverse changes on the financial and business conditions, development prospects and operation of the parties;
 - (6) All statements and warranties made by the parties under the Capital Contribution Agreement (including but not limited to the contents that has been made before) are true, accurate and not misleading.
2. Capital contribution arrangements:
 - (1) When all the above relevant conditions precedent are satisfied, Beijing Tianhai will sign a written confirmation letter.
 - (2) Within 15 days after the signing of the confirmation letter, Kuancheng Shenghua will change the stakeholder of the relevant documents of the subject land (land No.[2011] 40-1, with state-owned land use of industrial land, the expiry of the right of use on 30 April 2063, and the total area of approximately 11070.74 square metres; and land No.[2012]80-2, with state-owned land use of industrial land, the expiry of the right of use on 7 February 2061, and the total area of approximately 19136.53 square metres) (hereinafter referred to as “Subject Land”) and the subject property (property ownership certificate No.2012-320, with office of total area of 1229.28 square metres, accommodation of total area of 730.54 square metres and factory of total area of 5191.4 square metres, 7151.22 square metres in total; and property ownership certificate No.2015-405, with property area of 10621.05 square metres) (hereinafter referred to as “Subject Property”) to Kuancheng Tianhai, and deliver the equipment for contribution to fulfill the obligation of contributing in specie.

- (3) After the fulfillment of Kuancheng Shenghua's obligation of contribution, Kuancheng Tianhai and Beijing Tianhai will issue the "Certificate of Tangible Asset Contribution of Kuancheng Shenghua" after confirmation. Beijing Tianhai shall, within 60 days from the date of issue of the "Certificate of Tangible Asset Contribution of Kuancheng Shenghua", complete the following matters of capital contribution, which Kuancheng Shenghua shall cooperate with:
 - (1) The materials related to the right of use of technologies for the purpose of capital contribution shall be delivered to Kuancheng Tianhai, including but not limited to drawings, etc. After the completion of the delivery, the parties shall jointly sign the "Certificate of Intangible Asset Contribution of Beijing Tianhai";
 - (2) Beijing Tianhai shall pay the first phase of registered capital of RMB8,000,000 within 15 days from the date of issue of the "Certificate of Tangible Asset Contribution of Kuancheng Shenghua" and the date on which the JV Co sets up a basic account.
- (4) Beijing Tianhai shall fulfill the obligation of the second phase of cash contribution before 31 December 2018, and fully pay the second phase of registered capital of RMB37,767,800.

ii. Undertakings and warranties of the parties

1. The parties under the Capital Contribution Agreement provide the following representations and warranties to the other party respectively:
 - (1) The party is legally established and validly subsists, with the full civil rights and capacity to sign and fulfill the Capital Contribution Agreement;
 - (2) The individual who signs the Capital Contribution Agreement on behalf of the party has been sufficiently authorized by the party to sign into the Capital Contribution Agreement on behalf of the party, and the conduct of the individual represents and binds the party;
 - (3) The party's signature and fulfillment of the Capital Contribution Agreement do not violate any agreement, article, valid judgment, decision, judicial decision or administrative decision binding thereto;
 - (4) The party will be responsible or cooperate to complete the procedures relevant to the Capital Contribution Agreement, and sign and provide the necessary documents and information;
 - (5) The representations and warranties of that party shall be independent of each other and, unless there is a clear and contrary arrangement, the interpretation of certain representations and warranties of the party shall not affect the validity of any other representations and warranties;

- (6) The parties commit to fulfill the obligations under the terms of the Capital Contribution Agreement;
 - (7) The parties commit to undertake the responsibility of confidentiality on any technical secret and exclusive information provided and disclosed by the counterparty for the purpose of the cooperation, and shall not provide the secret and information in any way to any third party for possession or use; without the consent of the counterparty, the secret and information shall not be used in the party's own business operation;
 - (8) The assets under the capital contribution owned by each party are all legally owned and are consistent with account records and may be transferred, sold or otherwise disposed in accordance with the relevant laws of China. The parties have full and sufficient ownership of the assets, and the assets are free of third party ownership, rights of common, entitlement, right of security, right of pledge, lien or other encumbrance, and are also free of enforcement measures such as withholding, freezing and seizure taken by the court, arbitration institutions or other competent institutions; and
 - (9) For clarity, the debts or disputes of the parties are independent of the JV Co, and the parties shall undertake or settle the debts or disputes independently and shall not prejudice the JV Co's legitimate interests, including but not limited to disputes arising from the machinery and equipment of the JV Co of capital contribution.
2. Undertakings and warranties of Beijing Tianhai
 - (1) To complete the obligation of capital contribution in accordance with the terms of the Capital Contribution Agreement; and
 - (2) Under the prerequisite of Kuancheng Tianhai and Kuancheng Shenghua undertaking the obligation of confidentiality, to provide technical support for the products produced by the JV Co in accordance with the arrangement of the Capital Contribution Agreement.
 3. Undertakings and warranties of Kuancheng Shenghua
 - (1) The financial data provided to Beijing Tianhai is true and valid;
 - (2) In the event that there is any restrictive arrangement on the transaction in any loan agreement and/or third-party guarantee contract of Kuancheng Shenghua, Kuancheng Shenghua has fulfilled the relevant obligations in accordance with the relevant arrangement, including but not limited to notifying the third parties and/or obtaining the consent of the third parties;

- (3) Kuancheng Shenghua has completed the release procedures of the Subject Land on 16 December 2016, and has completed the release procedures of the Subject Property on 1 January 2017. There are no any other rights on the Subject Land and the Subject Property, including but not limited to securities, pledges, etc.;
- (4) It shall be held responsible for product quality for the products produced by the equipment contributed by it before the Capital Contribution Agreement takes effect, while the JV Co shall not be responsible for any disputes arising from the problems of product quality before the transaction;
- (5) To complete the obligation of capital contribution in accordance with the terms of the Capital Contribution Agreement;
- (6) To have full ownership on the subject land, property and equipment in the contribution of this transaction, and if Kuancheng Shenghua has failed to contribute in full, it shall pay the shortfall in contribution in cash within the agreed period determined through negotiation with Beijing Tianhai;
- (7) The overdued contribution of Beijing Tianhai shall not affect the shareholders' rights of Beijing Tianhai with respect to the shareholding of the JV Co it held, including but not limited to dividends and voting rights.
- (8) To undertake responsibility of confidentiality on the technical information of Beijing Tianhai which Kuancheng Shenghua may be known before and after the signing of the Capital Contribution Agreement and after the establishment of the JV Co, and shall not infringe its intellectual property rights in any form; and
- (9) To acknowledge that the company name of "Tianhai" is owned by Beijing Tianhai, and shall not use the company name containing the word "Tianhai" without the consent of Beijing Tianhai. If the shareholding of Beijing Tianhai in the JV Co is less than 40% or otherwise agreed by the parties, the JV Co shall change its name, and the name of the company shall not contain the word "Tianhai".

4. Non-competition undertaking

During the period from the date of the signing of the Capital Contribution Agreement to the date when Kuancheng Shenghua is no longer a shareholder of the JV Co, Kuancheng Shenghua and its related parties shall not, directly or indirectly:

- (1) Own, manage, undertake, operate and engage in entities engaging in competing business of the JV Co, or provide services to the aforementioned entities, and carry out or engage in competing business of the JV Co, or otherwise participate in competing business of the JV Co;

- (2) Attract or attempt to induce the clients, suppliers, agents, traders, distributors or customers of or may be of the JV Co or other parties who are used to trade with the JV Co to leave the JV Co; and
- (3) Attract or attempt to induce persons who are employed by the JV Co as at the date of signing of the Capital Contribution Agreement and are engaged in technical or management work to leave the JV Co, or provide employment opportunities to the persons or employ the persons, or provide to or sign service contracts with the persons.

For clarity, Beijing Tianhai and its related parties are not bound by the aforementioned non-competitive commitment.

iii. The taking effect, modification and termination of the Capital Contribution Agreement

1. The taking effect of the Capital Contribution Agreement is subject to the following prerequisites:
 - (1) The Capital Contribution Agreement is signed and sealed by the legal representative of each party or its authorized representative;
 - (2) The parties have completed the internal decision-making process and the approval procedures of the competent authorities for the transaction;
 - (3) Kuancheng Shenghua has completed the release procedures of the Subject Land and Subject Property, and the Subject Land and Subject Property have not had any other rights established.
2. Any outstanding matters, any amendment and change of the Capital Contribution Agreement shall be negotiated by the parties, and such outstanding matters, amendment and change shall only be valid when the parties have jointly signed a written agreement and legal approval is acquired.
3. The Capital Contribution Agreement shall be terminated for the following reasons:
 - (1) The Capital Contribution Agreement is normally completed;
 - (2) The parties agree to terminate the Capital Contribution Agreement;
 - (3) An event of force majeure renders it unable or unnecessary to fulfill the Capital Contribution Agreement; or
 - (4) The JV Co has not been established before 30 June 2017, and the parties have not reached a written consent on the extension of the term.

4. The party who is liable for the termination of the Capital Contribution Agreement shall indemnify the other party for the loss suffered as a result of the termination of the Capital Contribution Agreement. If both parties are not liable for the termination of the Capital Contribution Agreement, they shall each undertake the respective loss suffered.

iv. The termination of the JV Co

1. When the following circumstances arise, the JV Co shall be terminated:
 - (1) The term of the JV Co expires;
 - (2) The JV Co suffered a serious loss, with assets unable to cover its liabilities;
 - (3) An event of force majeure causes the JV Co to suffer significant loss, and unable to continue to operate;
 - (4) The parties agree to terminate the JV Co;
 - (5) A party fails to fulfill its obligations under the Capital Contribution Agreement, its appendices and the articles of association of the JV Co, causing the JV Co unable to continue to operate;
 - (6) In any of the following circumstances, Beijing Tianhai shall have the right at any time to dissolve the JV Co through notifying Kuancheng Shenghua and the JV Co in writing (this is the sole right of Beijing Tianhai and has no limitation on exercise period), and the issue of the written notice means that the JV Co shall dissolve. If necessary, the shareholders shall issue a resolution in the general meeting to unanimously agree to the dissolve the JV Co (subject to the requirements of the competent authority under the Administration for Industrial and Commerce).
 - 1 The environmental assessment report necessary for the project construction of the JV Co is not obtained before 30 September 2017; or the environmental impact assessment inspection necessary for the manufacturing and operation of the JV Co is not completed and the sewage discharge permission is not obtained before 31 December 2017; or
 - 2 Kuancheng Shenghua violates the Capital Contribution Agreement, its appendices or the articles of association of the JV Co, and has not rectified or properly settled within 30 days after the written notice of Beijing Tianhai.
2. In the event of the foregoing, the JV Co shall liquidate in accordance with the Company Law of the PRC and the articles of association of the JV Co. Where the situation under (5) and (6) above occurs, the defaulting party shall also be liable for the breach of contract under the arrangement of the Capital Contribution Agreement.

V. EFFECTS OF THE EXTERNAL INVESTMENT ON THE LISTED COMPANY

The JV Co may utilize the edges of Beijing Tianhai in respect of brand, technology and quality as well as those of Kuancheng Shenghua in respect of cost management. Both parties complement each other's advantages, and integrate the resources.

The JV Co may further expand the market share of the Company, constantly improve the strategic layout of the Company and satisfy with the needs and long-term planning of the Company for development.

VI. RISK ANALYSIS ON EXTERNAL INVESTMENT

The establishment of the JV Co satisfies with the needs and strategic planning for the development of the Company; while it still faces with risks from uncertainties in respect of market, operations and management. The Company will improve the corporate governance structure of the JV Co, enhance the construction and operation of the internal cooperation mechanism, explicitly determine the operation strategies of the JV Co, and establish a perfect internal control system and an effective supervisory mechanism to constantly satisfy the business requirements and the market changes and actively prevent and respond to the risks above.

VII. DOCUMENTS FOR FILING

1. The resolution of the 22nd interim meeting of the eighth session of the Board of the Company
2. The Capital Contribution Agreement
3. The Legal Due Diligence Report

The board of directors of
Beijing Jingcheng Machinery Electric Company Limited

Beijing, the PRC
6 April 2017

As at the date of this announcement, the board of directors comprises Mr. Wang Jun, Mr. Chen Changge, Mr. Li Junjie and Mr. Du Yuexi as executive directors, Mr. Xia Zhonghua, Ms. Jin Chunyu and Mr. Fu Hongquan as non-executive directors and Ms. Wu Yan, Mr. Liu Ning, Mr. Yang Xiaohui and Mr. Fan Yong as independent non-executive directors.