
LETTER FROM THE BOARD



KANGLI INTERNATIONAL HOLDINGS LIMITED

康利國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 06890)

Executive Directors

Mr. Mei Zefeng

Ms. Liu Ping

Mr. Zhang Zhihong

Mr. Xu Chao

Ms. Lu Xiaoyu

Headquarters in the PRC

Wuyi County, Heng Shanqiao Town

Wujin District, Changzhou City

Jiangsu Province, the PRC

Principal place of business in Hong Kong

2408, World-Wide House

19 Des Voeux Road Central

Central, Hong Kong

Independent non-executive Directors

Mr. Yang Guang

Mr. Lau Ying Kit

Mr. Cao Cheng

24 March 2023

To the Shareholders

Dear Sir or Madam,

- (1) DISCLOSEABLE AND CONNECTED TRANSACTION:
PROVISION OF FINANCIAL ASSISTANCE –
THE LOAN AGREEMENT;
(2) PROPOSED RE-ELECTION OF DIRECTOR; AND
(3) NOTICE OF EGM**

INTRODUCTION

The primary purposes of this circular are to provide you with information regarding the resolutions to be proposed at the EGM which include, among other matters, the approval of (i) the Loan Agreement and the transactions contemplated thereunder and (ii) proposed re-election of Director; to give you notice of the EGM; and other information as required under the Listing Rules.

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DISCLOSEABLE AND CONNECTED TRANSACTION

PROVISION OF FINANCIAL ASSISTANCE

On 28 February 2023, the Loan Agreement was entered into amongst Jiangnan Precision, as lender, Jiangnan Tiehejin, as borrower, and Mr. Mei, as guarantor. Pursuant to the Loan Agreement, Jiangnan Precision has agreed to grant the Loan in the principal amount of RMB20,000,000 to Jiangnan Tiehejin for a term of 3 years. The principal terms of the Loan Agreement are set out below:

THE LOAN AGREEMENT

Date of agreement	:	28 February 2023
Parties	:	(1) Jiangnan Precision, as lender (2) Jiangnan Tiehejin, as borrower (3) Mr. Mei, as guarantor
Principal	:	RMB20,000,000
Interest rate	:	5.5% per annum, which is determined with reference to the Group's existing cost of capital in the range of approximately 4.0% to 4.5%.

All interests accrued pursuant to the Loan Agreement shall be repayable by Jiangnan Tiehejin to Jiangnan Precision at the maturity of the Loan. If Jiangnan Precision chooses to exercise the Property Acquisition Option and Jiangnan Precision and Jiangnan Tiehejin have formally entered into a "commercial-housing pre-sale contract" (《商品房預售合同》) for the acquisition of the Property, all interests under the Loan Agreement will be waived, and the principal amount of the Loan shall be used to offset part of the purchase price for the acquisition of the Property (in case the final purchase price of the Property is higher than the outstanding principal amount of the Loan) or in full. In case the outstanding principal amount of the Loan is higher than the purchase price of the Property, Jiangnan Tiehejin shall repay Jiangnan Precision the remaining portion of the Loan (i.e., the difference between the principal amount of the Loan minus the purchase price of the Property), and the interests in this case shall be calculated based on the remaining portion of the principal amount of the Loan which is not applied towards the acquisition of the Property.

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- Conditions precedent : The drawdown of the Loan is subject to, among others, the fulfilment of the following conditions precedent:
- (a) all acknowledgements, approvals and consents having been obtained from internal or third parties for the transactions contemplated under the Loan Agreement;
 - (b) the Option Agreement having been entered into;
 - (c) if required, the approval from the Stock Exchange on the Loan Agreement and the transactions contemplated thereunder having been obtained and such approval not having been revoked or cancelled and there is no ruling that the Loan will constitute a very substantial acquisition, reverse takeover or extreme transaction;
 - (d) the passing of the necessary resolution by the Independent Shareholders at the EGM to approve the Loan Agreement and the transactions contemplated thereunder; and
 - (e) the Loan Agreement and the transactions contemplated thereunder having complied with Listing Rules.

All conditions are non-waivable.

In the event that any of the above conditions is not fulfilled or waived at or prior to the long stop date of the Loan Agreement, being 5:00 p.m. on 30 June 2023 or such later date as mutually agreed by the parties, the Loan Agreement will terminate and all obligations of Jiangnan Precision and Jiangnan Tiehejin under the Loan Agreement shall cease and determine and neither of them shall have any claim against the other in respect of any matter arising out of or in connection with the Loan Agreement except for any antecedent breach of any obligation and any liabilities under the Loan Agreement.

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- Drawdown Date : Within five working days after all conditions precedent pursuant to the Loan Agreement are fulfilled and when Jiangnan Precision has deposited the principal amount of the Loan in full into the bank account designated by Jiangnan Tiehejin or through other means as specified by Jiangnan Tiehejin.
- Repayment : The repayment date of the principal amount and all outstanding interests shall be three years from the Drawdown Date. Subject to compliance with laws and regulations (including the Listing Rules), Jiangnan Precision and Jiangnan Tiehejin may enter into agreement with terms mutually agreed for the extension of the Loan.
- Early repayment : Jiangnan Precision has the right to request the Borrower to repay the principal amount of the Loan and all accrued interest in full ahead of the repayment date of the Loan by giving to the Borrower one month's prior written notice.
- Security : The Loan will be secured by the personal guarantee provided by Mr. Mei, pursuant to which Mr. Mei agreed to guarantee to Jiangnan Precision the payment obligation of Jiangnan Tiehejin under the Loan Agreement, which includes but is not limited to the principal amount of the Loan, interest, damage compensation, and liquidated damages, and all costs (including litigation, legal fees and enforcement fees, etc.) attributed from Jiangnan Tiehejin's repayment obligation under the Loan Agreement. The guarantee period shall end when the repayment obligation of Jiangnan Tiehejin under the Loan Agreement is fulfilled.

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- Event of default : If Jiangnan Tiehejin defaults on the repayment of the Loan, Jiangnan Precision has the right to take remedial measures, including (a) requiring Jiangnan Tiehejin to rectify the breach; (b) requiring Jiangnan Tiehejin to bear the losses suffered by Jiangnan Precision; and (c) requiring Jiangnan Tiehejin to immediately repay the Loan and unpaid interests and all fees paid by and all losses incurred by Jiangnan Precision pursuant to the Loan Agreement. Other events of default pursuant to the Loan Agreement include: (i) Jiangnan Tiehejin fails to fully and punctually perform or comply with its obligations under the Loan Agreement; (ii) any representations, warranties and undertaking made or given by Jiangnan Tiehejin pursuant to the Loan Agreement are untrue or misleading in material respects; (iii) any provision of the Loan Agreement becomes invalid, unenforceable or Jiangnan Tiehejin's consent or approval to perform its obligations under the Loan Agreement is revoked or amended for whatever reason; or (iv) any debt of Jiangnan Tiehejin is declared due prior to the expiry of the term; or any guarantee or similar obligation of Jiangnan Tiehejin is not released after the expiry of the term.
- Transferability : Jiangnan Tiehejin shall not assign or resell any of its obligations or rights under the Loan Agreement, while Jiangnan Precision shall be able to renew, resell and/or transfer all rights and obligations under the Loan Agreement to any of its subsidiaries or its parent company.

PROPERTY ACQUISITION OPTION

Pursuant to the Loan Agreement, one of the conditions precedent to the drawdown of the Loan include Jiangnan Precision and Jiangnan Tiehejin having entered into the Option Agreement. The Option Agreement was entered into between Jiangnan Precision and Jiangnan Tiehejin on 28 February 2023, pursuant to which the Property Acquisition Option will be granted to Jiangnan Precision, at nil consideration, to acquire the Property with reference to the final price under the "commercial-housing pre-sale contract", subject to the fulfillment of all the conditions precedent therein.

The granting of the Property Acquisition Option is subject to, among others, the fulfilment of the following conditions precedent:

- (a) all acknowledgements, approvals and consents having been obtained from internal or third parties for the transactions contemplated under the Option Agreement;

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- (b) the Loan Agreement having been entered into and the conditions precedent therein having been fulfilled and the Loan having been drawn-down;
- (c) if required, the approval from the Stock Exchange on the Option Agreement and the transactions contemplated thereunder having been obtained and such approval not having been revoked or cancelled and there is no ruling that the Property Acquisition Option will constitute a very substantial acquisition, reverse takeover or extreme transaction;
- (d) if required, the passing of the necessary resolution by the Independent Shareholders at the EGM to approve the Option Agreement and the transactions contemplated thereunder; and
- (e) the Option Agreement and the transactions contemplated thereunder having complied with Listing Rules.

All conditions are non-waivable.

It is in Jiangnan Precision's sole discretion whether to exercise the Property Acquisition Option under the Option Agreement. Jiangnan Precision has the right to select which two floors of the New Office Building to be acquired at its sole discretion. The maximum purchase price of the Property upon the exercise of the Property Acquisition Option is capped at RMB22,000,000. The option exercise price of RMB22,000,000 was determined with reference to, among other things, (i) the prevailing market prices of properties of similar nature and grading available in the localities; and (ii) the current property market sentiment in Changzhou City, Jiangsu Province.

If Jiangnan Precision chooses to exercise the Property Acquisition Option and Jiangnan Precision and Jiangnan Tiehejin have formally entered into a "commercial-housing pre-sale contract" for the acquisition of the Property, all interests accrued under the Loan Agreement will be waived, and the principal amount of the loan shall be used to offset part of the purchase price for the acquisition of the Property in case the final purchase price of the Property is higher than the principal amount of the Loan. In the case the final purchase price of the Property is lower than the principal amount of the Loan, any balance of the Loan will be repaid to Jiangnan Precision.

Jiangnan Precision shall (i) notify Jiangnan Tiehejin its decision within 10 working days after the "Housing Pre-sale License" (《房屋預售許可證》) is being issued, and (ii) continue with the property acquisition procedures. Within 20 working days after Jiangnan Precision formally notifies Jiangnan Tiehejin of the floors selection or such later date as mutually agreed by the parties, if Jiangnan Tiehejin has not formally entered into a "commercial-housing pre-sale contract" with Jiangnan Precision, the Property Acquisition Option shall lapse. In the event that the Company requires to obtain Shareholders' approval in relation to the acquisition of the Property in accordance with the Listing Rules upon exercise of the Property Acquisition Option, Jiangnan Tiehejin shall agree to postpone the date of signing of the "commercial-housing pre-sale contract" until such Shareholders' approval is obtained, and Jiangnan Precision shall not be deemed as waiving its rights under the Property Acquisition Option.

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The Property Acquisition Option has a validity of 5 years from the date of the Option Agreement. In the event that Jiangnan Tiehejin cannot obtain the “Housing Pre-sale License” (《房屋預售許可證》) for pre-sale of the Property within the 5-year period, the validity of the Option Agreement shall extend to 2 months after Jiangnan Tiehejin having obtained such necessary approval, and that the parties shall proceed with the procedures for sale and purchase of the Property in accordance with the terms of the Option Agreement. Unless the Property Acquisition Option is exercised or otherwise agreed in writing by the parties, the Property Acquisition Option shall automatically expire after the end of the validity period. The validity period of the Property Acquisition Option will not be invalidated by the expiration or termination of the Loan Agreement.

FUNDING OF THE LOAN

The Group will finance the Loan with its general working capital.

INFORMATION ON THE CREDIT RISK TO THE LOAN

The interest rate of 5.5% per annum is determined with reference to, amongst others, the Group’s existing cost of capital in the range of approximately 4.0% to 4.5% and the low credit risk of the Loan based on the satisfactory credit assessment on the financial strength of Jiangnan Tiehejin and Mr. Mei.

The grant of the Loan was based on, amongst others, the personal guarantee by Mr. Mei, the credit assessments on the financial strength and repayment ability of Jiangnan Tiehejin. The Group has obtained unaudited financial statements including balance sheets for 2021 and 2022 of Jiangnan Tiehejin and personal financial information from Mr. Mei, including but not limited to bank statements and Mr. Mei’s Shares held in the Company through Newrich Limited by virtue of interest in controlled corporation (i.e. 342,000,000 Shares). With regard to unaudited financial statements of Jiangnan Tiehejin, as Jiangnan Tiehejin is a private company incorporated in the PRC, its financial statements are not subject to annual audit requirements under the relevant PRC rules and regulations and therefore, audited financial statements are not available. As advised by Jiangnan Tiehejin, Jiangnan Tiehejin filed its tax return to the relevant PRC authorities based on such unaudited financial information. The Board has reviewed Jiangnan Tiehejin’s tax filings for 2021 and 2022 and noted that the figures submitted to the PRC authorities are the same as those of the unaudited financial statements. The Board considers the use of unaudited financial statements for this purpose to be reasonable and adequate.

After taking into account all such factors, the Directors consider that the risks involved in the Loan are relatively low and manageable. The Directors are of the view that the guarantee provided by Mr. Mei can effectively safeguard the interests of the Company and the default risk of the Loan is relatively low.

INFORMATION OF THE PARTIES

The Company is a company incorporated in Cayman Islands with limited liability and is principally engaged in the manufacture and sales of hard steel coil, unpainted galvanised steel products and painted galvanised steel products. Jiangnan Precision, an indirect wholly-owned subsidiary of the Company, is a company established in the PRC and is principally engaged in steel processing.

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Mr. Mei is one of the Controlling Shareholders and an executive Director, spouse of Ms. Liu Ping, an executive Director, cousin-in-law of Mr. Xu Chao, an executive Director.

Jiangnan Tiehejin is a company established in the PRC with limited liability and is principally engaged in the processing, production and sales of various types of ferroalloy, including ferrotitanium and ferroaluminium. It is owned as to approximately 90.0% by Mr. Mei and approximately 10.0% by Ms. Chen Yunjuan, mother of Mr. Mei. The unaudited consolidated net current asset value and net asset value of Jiangnan Tiehejin as at 31 December 2021 and 2022, which was the basis of Jiangnan Tiehejin's tax filing, each amounted to over RMB1 billion.

Based on the above, Jiangnan Tiehejin is regarded as a connected person of the Company and the grant of the Loan therefore constitute a connected transaction pursuant to Chapter 14A of the Listing Rules.

INFORMATION OF THE LAND AND THE PROPERTY

The Land is situated at north of Dongfang Second Road, west of Dongshang Road, Lucheng Street, Changzhou Economic Development Zone, Changzhou City, Jiangsu Province, the PRC. The Land has a site area of approximately 12,581 sq.m.

The New Office Building is proposed to be constructed on the Land with a total construction area of approximately 69,000 sq.m., of which the ground floor area and the underground area will be approximately 49,000 sq.m. and 20,000 sq.m., respectively. Based on the current planning, the New Office Building shall consist of a building and annex thereto, of which the building is for office use and the annex thereto is for ancillary and supporting activities. The office area of each storey of the building shall be approximately 1,500 sq.m. The construction of the New Office Building is expected to begin in June 2023, and is expected to complete in December 2025. According to Jiangnan Tiehejin, the total construction cost of the New Office Building is expected to be approximately RMB300,000,000.

The Property shall consist of two storeys of office units, each storey being approximately 1,500 sq.m.

REASONS FOR AND BENEFITS OF THE ENTERING INTO THE LOAN AGREEMENT AND THE OPTION AGREEMENT

Granting of the Loan to Jiangnan Tiehejin provides the Group with an opportunity to utilize its cash resources on a more efficient basis and extend its source of revenue.

The Loan Agreement comes with the Property Acquisition Option, pursuant to which, the Group is granted the right to purchase the Property at the Group's sole discretion.

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The current office of the Group situated at Wuyi County, Hengshanqiao Town Wujin District, Changzhou City, Jiangsu Province, the PRC is a leased property and it is steadily reaching its maximum capacity with limited space for further increase of workstations. The Group is seeking to acquire new property for office use in support of the continued business growth of the Group, in particular, the expansion of the color-coating business since 2021.

The Property has a total of approximately 3,000 sq.m. The Directors are of the view that the Property is a suitable target as the size of the Property shall be able to sufficiently increase the office capacity of the Group and be able to satisfy the Group's need for office space in short to medium term. The New Office Building is located at the core business district of Changzhou Economic Development Zone (常州經濟開發區核心商務區), which is a key ongoing project of the Management Committee of the Economic Development Zone (經開區管委會). Further, the Directors believe that the acquisition of the Property will also be able to provide capital appreciation potential to the Group in the long run. As the Economic Development Zone is currently in the development stage, the housing prices are relatively favourable as compared to other developed business districts in Changzhou City, Jiangsu Province.

According to Jiangnan Tiehejin, the total construction cost of the New Office Building is expected to be approximately RMB300,000,000. The Loan in the amount of RMB20,000,000 shall be able to assist in financing the early stage of the construction of the New Office Building and foreseeably to speed up the overall progress of the construction.

The Directors consider that it is in the interest of the Group to consider the possible acquisition of the Property in the foreseeable future as office use in order to save future rental expenses. Further, in case that the Property is not to be fully utilized by the Group, the vacant spaces may be leased out on a short-term basis to generate rental income or to be sold out if there are suitable buyers or tenants.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Jiangnan Tiehejin is owned as to approximately 90.0% by Mr. Mei and approximately 10.0% by Ms. Chen Yunjuan, mother of Mr. Mei. Mr. Mei is one of the Controlling Shareholders and an executive Director. As such, Jiangnan Tiehejin is regarded as a connected person of the Company and the grant of the Loan therefore constitute a connected transaction pursuant to Chapter 14A of the Listing Rules.

As one of the applicable percentage ratios (as defined in the Listing Rules) is more than 5% but less than 25%, the transaction contemplated under the Loan Agreement constitute a discloseable (under Chapter 14 of the Listing Rules) and connected transaction (under Chapter 14A of the Listing Rules) of the Company, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and the reporting, announcement, circular and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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The grant of the Property Acquisition Option under the Option Agreement would be treated as a transaction and classified by reference to the percentage ratios (as defined under the Listing Rules) pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules. The exercise of the Property Acquisition Option is at the discretion of Jiangnan Precision. According to Rules 14.75(1) and 14A.79(2) of the Listing Rules, on the grant of the Property Acquisition Option, only the premium (which is nil) will be taken into consideration for calculating the relevant percentage ratios. The Company will comply with the relevant requirements under the Listing Rules upon the exercise and non-exercise of the Property Acquisition Option (as the case may be).

The Board (including the independent non-executive Directors) has approved the Property Acquisition Option, and confirmed that the terms of the Option Agreement are fair and reasonable and are on normal commercial terms and in the interests of the Company and the shareholders as a whole.

Since Mr. Mei has a material interest in the Loan Agreement, the Option Agreement and the transactions thereunder through Jiangnan Tiehejin, Mr. Mei and Ms. Liu Ping (spouse of Mr. Mei, one of the Controlling Shareholders and an executive Director) have abstained from voting on the Board resolutions on the Loan Agreement, the Option Agreement and the transactions contemplated thereunder. As Mr. Xu Chao, an executive Director, is a cousin of Ms. Liu Ping and cousin-in-law of Mr. Mei, Mr. Xu Chao has or may be regarded as having a material interest in the Loan Agreement and the Option Agreement. Hence, Mr. Xu Chao has also abstained from voting in respect of such resolutions considered in the meeting of the Board.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed in accordance with Chapter 14A of the Listing Rules to advise the Independent Shareholders on the Loan Agreement and the transactions contemplated thereunder.

Altus Capital Limited has been appointed by the Company as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee and the Independent Shareholders in respect of the Loan Agreement and the transactions contemplated thereunder.

RE-ELECTION OF DIRECTOR

Pursuant to Article 83(3) of the Articles of Association, any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of the Company after his appointment and be subject to re-election at such meeting.

In accordance with the abovementioned Articles, Mr. Cao Cheng shall hold the office of Directors until the EGM and, being eligible, offer himself for re-election at the EGM.

Brief biographical details of the above retiring Director who is proposed to be re-elected at the EGM are set out in Appendix II to this circular.

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EGM

The EGM will be convened at 11:30 a.m. on Friday, 14 April 2023 at 2408, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong, for the Shareholders to consider and, if thought fit, approve the grant of Loan and the transactions contemplated thereunder and the re-election of Director. The Notice of EGM is set out on pages EGM-1 to EGM-2 of this circular.

All Shareholders who have a material interest in the Loan Agreement and the transaction contemplated thereunder will be required to abstain from voting on the relevant resolution at the EGM. As at the Latest Practicable Date, Mr. Mei and his close associates (including Ms. Liu Ping, an executive Director, one of the Controlling Shareholders and spouse of Mr. Mei) were interested in 428,720,000 Shares in aggregate, representing approximately 70.72% of the issued shares of the Company as at the Latest Practicable Date, therefore each of Mr. Mei and Ms. Liu Ping shall abstain and will procure their respective associates to abstain from voting on the relevant resolution at the EGM. Save as aforementioned, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder had a material interest in the Loan Agreement and the transactions contemplated thereunder and therefore no Shareholder is required to abstain from voting at the EGM for the relevant resolution.

If you intend to appoint a proxy to attend the EGM, you are required to complete and return the accompanying form of proxy in accordance with the instructions printed thereon. The forms of proxy must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not less than 48 hours (i.e. 11:30 a.m. on Wednesday, 12 April 2023) before the time for holding the EGM or any adjourned meeting thereof in order for such documents to be valid.

Completion and return of the forms of proxy will not preclude a Shareholder from attending and voting in person at the EGM or at any adjourned meeting thereof should you so wish, but in such event the instrument appointing a proxy shall be deemed to be revoked.

Register of members of the Company will be closed from Tuesday, 11 April 2023 to Friday, 14 April 2023 (both days inclusive) for the purpose of ascertaining Shareholders' entitlement to attend and vote at the EGM. No transfer of Shares will be registered during those dates. In order to qualify for attending and voting at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Tricor Investor Services Limited, at the address mentioned above not later than 4:30 p.m. on Thursday, 6 April 2023.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 16 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 17 to 30 of this circular in connection with the Loan Agreement and the transactions contemplated thereunder, and the principal factors and reasons considered by the Independent Financial Adviser in arriving at such advice.

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The Independent Board Committee, having considered the terms of the Loan Agreement and the advice of the Independent Financial Adviser, are of the opinion that the Loan Agreement and the transactions contemplated thereunder are fair and reasonable and on normal commercial terms and that the grant of Loan is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to approve the Loan Agreement and the transactions contemplated thereunder.

The Directors (including independent non-executive Directors) are of the opinion that all the proposed resolutions are in the interests of the Company and the Shareholders as a whole and so recommend you to vote in favour of all the resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is also drawn to (i) the letter from the Independent Board Committee set out on page 16 of this circular, containing its recommendation in respect of the Loan Agreement and the transactions contemplated thereunder; and (ii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 17 to 30 of this circular, containing its recommendation in respect of the Loan Agreement and the transactions contemplated thereunder.

The Independent Shareholders are advised to read the aforesaid letters before deciding as to how to vote on the resolution approving the Loan Agreement and the transactions contemplated thereunder.

By order of the Board
KangLi International Holdings Limited
Liu Ping
Chairman