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## **DYNAMIC ENERGY HOLDINGS LIMITED**

**合動能源控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 578)**

**(1) FRAMEWORK AGREEMENT,  
(2) PROPOSED ISSUANCE OF CONVERTIBLE NOTES,  
(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL,  
(4) CHANGE OF BOARD LOT SIZE,  
AND  
(5) RESUMPTION OF TRADING**

**(1) FRAMEWORK AGREEMENT**

The Board is pleased to announce that on 12 March 2010 after trading hours, the Company has entered into a framework agreement with the Partners in relation to the Possible Transaction.

The Possible Transaction, if it materializes, may constitute a notifiable transaction for the Company under the Listing Rules. If and when appropriate, the Company will comply with the reporting, disclosure and/or shareholders' approval requirements under the Listing Rules should the Possible Transaction proceed.

**(2) PROPOSED ISSUANCE OF CONVERTIBLE NOTES**

On 12 March 2010 after trading hours, the Subscriber and the Company entered into the Subscription Agreement in respect of the issue of the Convertible Notes in the principal aggregate amount of HK\$1,200,000,000. Completion of the Subscription Agreement is subject to the conditions as set out in the paragraph headed "Conditions precedent" below.

Detailed terms of the Convertible Notes are set out in the paragraph headed "Principal terms of the Convertible Notes". The net proceeds from the issuance of the Convertible Notes will be used to (i) repay the Bonds; (ii) finance the Possible Transaction; and (iii) general working capital of the Group. As at the date hereof, the Subscriber, its ultimate beneficial owners and its respective associates is an Independent Third Party.

The issuance of the Convertible Notes is conditional upon (i) the satisfaction of the due diligence exercise to be carried out by the Subscriber; (ii) the approval from the Shareholders at the general meeting in accordance with the requirements under the Listing Rules (if any) and the Listing Committee of the Stock Exchange granting or agreeing to grant the approval to the transaction contemplated under the Subscription Agreement; and (iii) the approval from the Shareholders at the SGM to increase the authorised share capital of the Company. If such conditions are not fulfilled, the issuance of the Convertible Notes will not proceed.

### **(3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

In order to facilitate the possible conversion of the Convertible Notes, the Directors propose to the Shareholders to increase the authorised share capital of the Company from HK\$300,000,000 (divided into 3,000,000,000 Shares) to HK\$3,000,000,000 (divided into 30,000,000,000 Shares) by the creation of an additional 27,000,000,000 Shares.

The Increase in Authorised Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM.

The SGM will be convened and held for the Shareholders to consider and, if thought fit, approve the Increase in Authorised Capital and the granting of the Specific Mandate.

A circular containing, among other things, (i) further details about the Increase in Authorised Capital and the granting of the Specific Mandate; and (ii) the notice convening the SGM, will be despatched by the Company to the Shareholders as soon as practicable.

No Shareholder is required to abstain from voting at the SGM. So far as the Directors are aware, no Director or Shareholder has a material interest in the subscription of the Convertible Notes.

### **(4) CHANGE OF BOARD LOT SIZE**

As at the date of this announcement, the Shares are currently traded on the Stock Exchange in the board lots of 2,000 Shares. The Board proposes the Shares will be traded on the Stock Exchange in the board lots of 10,000 Shares. Arrangement and the timetable for the change in the board lot size have not yet been finalized and will be announced in due course.

## **CAUTION**

Completion of the Subscription Agreement is subject to the satisfaction of the conditions precedent in the Subscription Agreement on or before 30 May 2010 (or such other date as the Company and the Subscriber may agree) under the terms and conditions of the Subscription Agreement. As the subscription of the Convertible Notes may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

### **(5) SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 2:30 p.m. on Tuesday, 9 March 2010 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on Monday, 15 March 2010.

### **(1) FRAMEWORK AGREEMENT**

The Board is pleased to announce that, on 12 March 2010 after trading hours, the Company has entered into a non binding framework agreement with the Partners in relation to the possible acquisition of the 22 Coal Mines in Henan Province, the PRC (the “Possible Transaction”).

To the best of the Directors’ knowledge, having made all reasonable enquiries, the Partners are not Connected Persons (as defined in the Listing Rules) of the Company and are Independent Third Parties.

The principal terms of the Possible Transaction are as follows:

1. Partner A will act as the leader of the Possible Transaction to lead the co-ordination between the Partners and the Company in relation to the consolidation, acquisition and restructuring of different coal mine enterprises within Henan Province;
2. Following to the notification and directions issued by Coal Mine Enterprises Consolidation, Acquisition and Restructuring Management Office of Henan Province (河南省煤炭企業兼併重組辦公室), Party B and the Company will consolidate, acquire and restructure the 22 Coal Mines;
3. The Company is responsible to raise funds to finance the consolidation, acquisition and restructuring of the 22 Coal Mines as well as the technical improvement on the 22 Coal Mines after the acquisition. It is preliminary estimated that the Company is necessary to raise funds amounting to RMB1 billion. The actual amount of funds to be raised and invested by the Company may be vary depends on the actual situation requirement;
4. Upon completion of the Possible Transaction, the daily operation and management of all the acquired coal mines will be managed by Party B;
5. Party A will be responsible to arrange and handle all the required documents or licenses which are relevant to the process of consolidation, acquisition and restructuring of coal mines;

6. The coal mine enterprises within the governing area of Party A which are subject to the Possible Transaction will be entitled with the benefit from those local favorable policies which are for focus enterprises (重點企業).

### **General information of the Partners and the 22 Coal Mines**

Partner A is the government of Pendingshan Municipal Shilong Qu of Henan Province. Pendishan Municipal Shilong Qu is one of the focus coal production districts within Henan Province. Currently, there are 22 coal mines within the governing area of Partner A (i.e. the 22 Coal Mines). Total coal reserve and annual designed production capacity of the 22 Coal Mines is estimated at approximately over 50 million tons and 3.3 million tons respectively.

Partner B is a state owned enterprise and was set up with the permission from the Henan Province Government. It is principally engaged in exploration, development and utilization of coalbed gas resources. Party B is also the partner of the Company for the Joint Venture as disclosed in the announcement of the Company dated 13 November 2009.

The Partners, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined under the Listing Rules) and are not Connected Persons of the Company.

### **Reasons for the Possible Transaction**

The Group is one of the major coal mine enterprises in the Denfeng Municipal of Henan Province. It principally engages in the sales and production of coal in Henan Province.

The Possible Transaction is in line with business strategy of the Group. It enables the Group to capitalise on its existing business structure to expand its production volume and coal reserve. Moreover, the Possible Transaction is in line with the PRC government's recent policies to encourage consolidation, acquisition and restructuring of small to medium size coal mines.

It is anticipated that the Possible Transaction provides a good opportunity for the Company to develop and expand its business. The Board considers the Possible Transaction is beneficial to the Company and the Shareholders as a whole.

Since the negotiation is still in progress and the terms have not been finalized, the Possible Transaction may or may not proceed further. The Possible Transaction, if it materializes, may constitute a notifiable transaction for the Company under the Listing Rules. If and when appropriate, the Company will comply with the reporting, disclosure and/or shareholders approval requirements under the Listing Rules and all applicable laws and regulations should the Possible Transaction proceed.

## **(2) PROPOSED ISSUANCE OF CONVERTIBLE NOTES**

On 12 March 2010 after trading hours, the Subscriber and the Company entered into the Subscription Agreement in respect of the proposed issuance of the Convertible Notes in the principal aggregate amount of HK\$1,200,000,000. Details of the Subscription Agreement and the terms of the Convertible Notes are described below.

### **SUBSCRIPTION AGREEMENT**

#### **(1) Parties and Date**

Date: 12 March 2010

Issuer: the Company

Subscriber: Victory Investment China Group Limited

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, as at the date hereof, the Subscriber, its ultimate beneficial owners and its respective associates is an Independent Third Party. Victory Investment China Group Limited is a company registered in the British Virgin Islands and principally engaged in investment holding.

#### **(2) Principal terms of the Convertible Notes**

Aggregate principal: HK\$1,200,000,000 to be issued in the principal sum of HK\$10,000,000 each (or multiple of HK\$10,000,000). Upon completion, the Subscriber will subscribe HK\$200,000,000 of the Convertible Notes. The Subscriber will subscribe to the remaining balance of HK\$1,000,000,000 upon demand by the Company.

Interest rate: The Convertible Notes shall not carry any interest.

Maturity date: Unless previously cancelled or converted, or redeemed any outstanding Convertible Notes shall be redeemed on the date falling on the third anniversary of the date of issue of the Convertible Notes.

Ranking: The Convertible Notes constitute a general and unsecured obligations of the Company and rank equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company.

Conversion: Holders of the Convertible Notes will have the right to convert the whole or part of the principal amount of the Convertible Notes into Shares at the conversion price (as provided below) at any time and from time to time, from the date of issue of the Convertible Notes in amounts of a whole multiple of HK\$10,000,000 on each conversion.

**Conversion Price:** The Conversion Price is initially HK\$0.10 per Share, subject to adjustment for, among other matters, subdivision or consolidation of Shares, rights issue, extraordinary stock or cash distribution, and other dilutive events (which are the standard anti-dilution adjustment). The adjustment to be made will be determined by the auditors or qualified financial advisors.

**Voting:** Holders of the Convertible Notes will not be entitled to attend or vote at any general meeting of the Company by reason only of it being the holders of the Convertible Notes.

**Transfer:** The Convertible Notes may be transferable to any persons other than the “Connected Persons” of the Company.

Based on the Conversion Price of HK\$0.10 per Conversion Share, a maximum number of 12,000,000,000 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the Convertible Notes in full if the Subscriber subscribed the Convertible Notes in full, which represent: (i) approximately 566.54% of the existing issued share capital of the Company as at the date hereof, and (ii) approximately 85.00% of the enlarged share capital of the Company.

The Conversion Shares will rank *pari passu* in all respects with the Shares in issue as at the date of allotment and issue of the Conversion Shares. There will not be any restrictions for the subsequent sale of the Conversion Shares by the Subscriber.

No application will be made for listing of, or permission to deal in, the Convertible Notes on the Stock Exchange or any other stock exchange. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

### **(3) Conditions precedent**

Completion of the Subscription Agreement is conditional upon the fulfillment of the following conditions precedent:

- (i) the satisfaction of the due diligence exercise to be carried out by the Subscriber;
- (ii) the approval from the Shareholders at the general meeting in accordance with the requirements under the Listing Rules (if any) and the Listing Committee of the Stock Exchange granting or agreeing to grant the approval to the transaction contemplated under the Subscription Agreement; and
- (iii) the approval from the Shareholders at the SGM to increase the authorised share capital of the Company. If such conditions are not fulfilled, the issuance of the Convertible Bonds will not proceed.

If any of the above conditions are not fulfilled on or before 30 May 2010 (or such other date as may be agreed by the Company and the Subscriber in writing), the issuance of the Convertible Notes will not proceed and the Subscription Agreement will lapse and become null and void and the parties thereto shall be released from all obligations hereunder, save the liabilities for any antecedent breaches thereof.

#### **(4) Completion**

Completion shall take place within three Business Days following the date on which the above conditions are fulfilled (or such other date as the parties hereto may agree).

On the day of Completion, the Subscriber is required to pay HK\$200,000,000 to the Company for the first tranche of the subscription of the Convertible Notes and the Company has to deliver the respective certificates of the Convertible Notes to the Subscriber.

#### **REASON FOR THE ISSUE OF CONVERTIBLE NOTES AND USE OF PROCEEDS**

The Group is principally engaged in the production and sale of coal in the PRC.

The Directors consider raising funds by issuing Convertible Notes is justifiable considering that the proceeds would be used to (i) repay the Bonds; (ii) finance the Possible Transaction; and (iii) general working capital of the Group.

The issuance of the Convertible Notes would enhance the working capital and strengthen its capital base and financial position of the Group.

The Directors consider that the issue of the Convertible Notes is an appropriate means of raising additional capital for the Company since it will not have an immediate dilution effect on the shareholding of the existing Shareholders.

The conversions price of HK\$0.10 was agreed upon based on the recent closing prices of the Shares as quoted on the Stock Exchange. The Directors consider that the terms of the Subscription Agreement and the Convertible Notes, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

The total gross proceeds from the issue of the Convertible Notes is HK\$1,200,000,000. The proceeds from the issue of the Convertible Notes of approximately HK\$140,000,000 will be used for the repayment of the Bonds. The remaining balance of HK\$1,060,000,000 will be used (i) to finance the Possible Transaction; and (ii) as the general working capital of the Group.

The Company is still at liberty to issue other securities to raise funds when the Board considers appropriate to do so. The terms of the Convertible Notes do not place any restrictions in this regard on the Company, save for the adjustments of the Conversion Price (if necessary) of the Convertible Notes.



## SHAREHOLDING STRUCTURE

The shareholding structure of the Company (i) as at the date of this announcement; (ii) upon full conversion of the Convertible Notes; (iii) upon full conversion of the Convertible Notes and the Dragon Rich Convertible Note; and (iv) upon full conversion of the Convertible Notes, the Bonds and the Dragon Rich Convertible Note, each prepared on the basis that there would be no changes in the issued share capital of the Company after the date of this announcement other than as stated in each scenario. However, Shareholders should note that the analysis under scenarios (ii), (iii) and (iv) are shown for illustration purpose only and will not materialize, for the reason that public floatation is less than 25% as required by the Listing Rules.

Shareholder	scenario (i)		scenario (ii)		scenario (iii)		scenario (iv)	
	As at the date of this announcement		Upon full conversion of the Convertible Notes		Upon full conversion of the Convertible Notes and the Dragon Rich Convertible Note		Upon full conversion of the Convertible Notes, the Bonds and the Dragon Rich Convertible Note	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
<b>Substantial Shareholder</b>								
Dragon Rich Resources Limited	460,735,713	21.75	460,735,713	3.26	884,648,756	6.08	884,648,756	6.01
Hopeview Consultants Limited	202,500,000	9.56	202,500,000	1.43	202,500,000	1.39	202,500,000	1.37
MCC International (Group) Company Limited*	–	–	–	–	–	–	185,791,044*	1.26
<b>Subscriber</b>	–	–	12,000,000,000	85.00	12,000,000,000	82.52	12,000,000,000	81.48
	663,235,713	31.31	12,663,235,713	89.69	13,087,148,756	89.99	13,272,939,800	90.12
<b>Other Public Shareholders</b>	1,454,894,961	68.69	1,454,894,961	10.31	1,454,894,961	10.01	1,454,894,961	9.88
<b>Total</b>	<u>2,118,130,674</u>	<u>100.00</u>	<u>14,118,130,674</u>	<u>100.00</u>	<u>14,542,043,717</u>	<u>100.00</u>	<u>14,727,834,761</u>	<u>100.00</u>

\* The holder of the Bonds has delivered irrevocable notice to request the Company to redeem the outstanding amount.



## FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any equity fund raising activities in the previous 12 months immediately preceding the date of this announcement.

<b>Date of announcement</b>	<b>Event</b>	<b>Net proceeds</b>	<b>Intended use of proceeds</b>	<b>Actual use of proceeds</b>
19 October 2009	Open Offer of 706,043,558 offer shares at HK\$0.20 per offer shares (in proportion of one offer share for every two existing shares held on the record date)	Approximately HK\$137.4 million	To finance the formation of the Joint Venture as announced by the Company on 5 July 2009 and general working capital	HK\$80 million has been used for setting up the Joint Venture and the remaining for the general usage and working capital of the Group

## MANDATE TO ISSUE THE CONVERSION SHARES

As at the date of this announcement, 79,568,181 Shares were issued from the general mandate to allot, issue and deal with Shares granted to the Directors at the annual general meeting of the Company held on 8 June 2009. The remaining number of Shares which could be allotted and issued under the general mandate is 186,555,606 as at the date hereof. As such, the current general mandate is not sufficient for the issue and allotment of the Conversion Shares. A separate Shareholders' approval to grant the Specific Mandate is required for the issue of the Conversion Shares pursuant to the Subscription Agreement.

### (3) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

In order to facilitate the possible conversion of the Convertible Notes and provide for future expansion in the share capital of the Company, the Directors propose to the Shareholders to increase the authorised share capital of the Company from HK\$300,000,000 (divided into 3,000,000,000 Shares) to HK\$3,000,000,000 (divided into 30,000,000,000 Shares) by the creation of an additional 27,000,000,000 Shares.

The Increase in Authorised Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the SGM.

As of the date of this announcement, the authorised share capital of the Company is HK\$300,000,000 (divided into 3,000,000,000 Shares), of which 2,118,130,674 Shares have been issued and allotted as fully paid or credited as fully paid.

### (4) CHANGE OF BOARD LOT SIZE

As at the date of this announcement, the Shares are currently traded on the Stock Exchange in the board lots of 2,000 Shares. The Board proposes the Shares will be traded on the Stock Exchange in the board lots of 10,000 Shares.

The change in the board lot size is to increase the value of each board lot of the Shares and reduce the transaction and registration costs incurred by the Shareholders and investors of the Company. The Directors therefore consider that the change in the board lot size is in the best interests of the Company and the Shareholders as a whole. The change in the board lot size will not result in any change in the relative rights of the Shareholders.

The arrangement and the expected timetable for the implementation of the change in the board lot size have not yet been finalized and will be announced in due course.

## **SGM**

A SGM will be convened and held for the Shareholders to consider and, if thought fit, approve (i) the Increase in Authorised Capital and (ii) the granting of the Specific Mandate.

A circular containing, among other things, (i) further details about the Increase in Authorised Capital and the granting of the Specific Mandate; and (ii) the notice convening the SGM, will be despatched to the Shareholders as soon as practicable. No Shareholder is required to abstain from voting at the SGM. So far as the Directors are aware, no Director or Shareholder has a material interest in the subscription of the Convertible Notes.

## **CAUTION**

Completion of the Subscription Agreement is subject to the satisfaction of the conditions precedent in the Subscription Agreement on or before 30 May 2010 (or such other date as the Company and the Subscriber may agree) under the terms and conditions of the Subscription Agreement. As the subscription of the Convertible Notes may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

## **DEFINITIONS**

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

- “22 Coal Mines” : means the 22 coal mines which are within the governing area of Partner A;
- “associate(s)” : having the meaning ascribed thereto in the Listing Rules;
- “Board” : means the board of Directors of the Company;
- “Bonds” : means the convertible notes with aggregate initial principal amount US\$25 million issued by the Company pursuant to the subscription agreements dated 3 December 2007 respectively, details of which were set out in the announcements of the Company dated 6 December 2007. As at the date of announcement, the outstanding principal is US\$16 million.

The Company now is in default of payment of the Bonds as stated in the announcements dated 10 December 2009 and 23 December 2009;

“Business Day”	: means a day (other than a Saturday) on which banks generally are open for business in Hong Kong;
“Company”	: means Dynamic Energy Holdings Limited, company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange;
“Connected Person(s)”	: having the meaning ascribed thereto in the Listing Rules;
“Conversion Price”	: means HK\$0.10 per Conversion Share;
“Conversion Shares”	: means the Shares to be issued upon exercise of the conversion rights attaching to the Convertible Notes;
“Convertible Notes”	: means the zero coupon convertible redeemable Notes in the maximum aggregate principal amount of HK\$1,200,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement;
“Director(s)”	: means the director(s) of the Company;
“Dragon Rich”	: means Dragon Rich Resources Limited, an investment holding company incorporated in the British Virgin Islands with limited liability and a substantial Shareholder;
“Dragon Rich Convertible Note”	: the zero coupon convertible note issued by the Company to Dragon Rich in the aggregate initial principal amount of HK\$230,000,000 with a term of 3 years. As at the date of this announcement, the outstanding principal is HK\$195,000,000;
“Group”	: means the Company and its subsidiaries;
“Hong Kong”	: means the Hong Kong Special Administrative Region of the People’s Republic of China;
“Increase in Authorised Capital”	: means the proposed increase in the authorised share capital of the Company from HK\$300,000,000 (divided into 3,000,000,000 Shares) to HK\$3,000,000,000 (divided into 30,000,000,000 Shares) by the creation of an additional 27,000,000,000 Shares;
“Independent Third Party(ies)”	: means party(ies) who is(are) independent of and not connected nor acting in concert with the Directors, chief executive or substantial Shareholders of the Company or its subsidiaries, or any of their respective associates, or parties acting in concert with it;

“Joint Venture”	: means Henan Yulong Energy Development Co., Ltd. (河南裕隆能源發展有限公司), a joint venture company incorporated in the PRC with limited liability;
“Listing Rules”	: means the Rules Governing the Listing of Securities on the Stock Exchange;
“Main Board”	: means the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange;
“Partners”	: means Partner A and Partner B;
“Partner A”	: means The Government of Pingdingshan Municipal Shilong Qu* (平頂山市石龍區人民政府);
“Partner B”	: means Henan Province Coalbed Gas Development and Utilizations Company Limited* (河南省煤層氣開發利用有限公司);
“PRC”	: means the People’s Republic of China, which, unless otherwise stated, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement;
“SGM”	: means a special general meeting of the Company to be convened to consider and, if thought fit, to approve, among others, the Increase in Authorised Capital and the granting of Specific Mandate;
“Share(s)”	: means the ordinary shares with par value of HK\$0.10 each in the capital of the Company;
“Shareholder(s)”	: means holder(s) of Shares;
“Specific Mandate”	: means a specific mandate to allot and issue the Conversion Shares to be sought from the Shareholders of the SGM;
“Stock Exchange”	: means The Stock Exchange of Hong Kong Limited;
“Subscriber”	: means Victory Investment China Group Limited, an investment holding company incorporated in the British Virgin Islands with limited liability;
“Subscription Agreement”	: means the conditional subscription agreement entered into between the Subscriber and the Company dated 12 March 2010 in relation to the subscription of the Convertible Notes;
“HK\$”	: means Hong Kong dollar(s), the lawful currency of Hong Kong;

- “RMB” : means Renminbi, the lawful currency of the PRC;
- “US\$” : means United States dollar, the lawful currency of the United States of America;
- “%” : per cent.

By order of the Board  
**Dynamic Energy Holdings Limited**  
**Wu Jiahong**  
*Executive Director*

Hong Kong, 15 March 2010

*As at the date of this announcement, the executive directors are Mr. Bao Hongkai, Mr. Cheng Koon Cheung, Mr. Li Chun On, Mr. Wu Jiahong, Mr. Xu Lidi; and the independent non-executive directors are Mr. Chan Kin Sang, Mr. Choi Man Chau Michael, Mr. He Guangcai and Mr. Ng Wing Hang Patrick*

\* *For identification purposes only*