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中國通信服務  
CHINA COMSERVICE

中國通信服務股份有限公司

**CHINA COMMUNICATIONS SERVICES CORPORATION LIMITED**

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

**(Stock Code: 552)**

**ANNOUNCEMENT ON ACQUISITIONS  
CONNECTED TRANSACTIONS**

The Board is pleased to announce that the Company has won three open bids on the Shanghai Assets Exchange and Beijing Assets Exchange to acquire each of the Target Interests, following which the Group has entered into the Equity Transfer Agreements with the relevant Vendors on 26 May 2009.

Each of the Target Companies is engaged in a different type of business, being logistics services (in respect of Tongmao), technology, system integration and applications services (in respect of Guoxin Lucent) and telecommunications infrastructure services (in respect of Telecom Engineering).

The amount of the three winning bids is approximately RMB64.16 million for the Tongmao Interest, approximately RMB33.89 million for the Guoxin Lucent Interest, and approximately RMB16.51 million for the Telecom Engineering Interest. In total the Group will pay approximately RMB114.56 million for the three winning bids.

As the Vendors in the open bidding process on the Shanghai Assets Exchange and Beijing Assets Exchange are either China Telecommunications Corporation, the controlling shareholder of the Company, or its subsidiaries, the Acquisitions (except for the acquisition of the 1% equity interest of Telecom Engineering from Guangdong Hongbo, namely, the *Intra-group Transfer*) constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

The relevant percentage ratios (as defined under the Listing Rules) involved in each of the Acquisitions exceed 0.1% but are less than 2.5%. Accordingly, the Acquisitions are subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirement.

## **1. THE ACQUISITIONS**

The Board is pleased to announce that the Company recently participated in the open bidding process on the Shanghai Assets Exchange and Beijing Assets Exchange and has won three open bids to acquire each of the Target Interests. Following the awarding of winning bids to the Group by the relevant assets exchange, the Group has entered into the following Equity Transfer Agreements with the relevant Vendors:

- (a) On 26 May 2009, Shanghai CCS, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Shanghai Telecom Industry, pursuant to which Shanghai CCS agreed to purchase, and Shanghai Telecom Industry agreed to sell, the Tongmao Interest for a consideration of approximately RMB64.16 million.
- (b) On 26 May 2009, the Company entered into an equity transfer agreement with China Telecommunications Corporation and China Telecom Corporation Limited respectively, pursuant to which the Company agreed to purchase, and China Telecommunications Corporation and China Telecom Corporation Limited agreed to sell, the Guoxin Lucent Interest for a total consideration of approximately RMB33.89 million.
- (c) On 26 May 2009, Guangdong CCS, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Shenda Telephone and Guangdong Hongbo respectively, pursuant to which Guangdong CCS agreed to purchase, and Shenda Telephone and Guangdong Hongbo agreed to sell, the Telecom Engineering Interest for a total consideration of approximately RMB16.51 million.

The Target Interests were put to open bid on 20, 24 and 28 April 2009 respectively on the Shanghai Assets Exchange (in respect of the Tongmao Interest and Guoxin Lucent Interest) and the Beijing Assets Exchange (in respect of the Telecom Engineering Interest) according to relevant PRC regulations on state-owned assets.

The Equity Transfer Agreements between the Group and each Vendor were separately entered into and are independent of each other.

## **2. INFORMATION OF TARGET COMPANIES AND TARGET INTERESTS**

### **Tongmao and Tongmao Interest**

Tongmao is a state-owned holding company with limited liability incorporated in 1998 in Shanghai Municipality under PRC laws. It is currently 95.945% owned by Shanghai Telecom Industry, with the remaining equity owned by two independent third-party shareholders. The registered paid-in capital of Tongmao is approximately RMB40 million.

Tongmao is a provider of comprehensive logistics services. Its principal business activities are import and export of goods, including telecommunications related equipment and facilities, trade, international trade, international forwarder services and other related consulting services.

The Tongmao Interest was put to open bid on the Shanghai Assets Exchange on 20 April 2009 by Shanghai Telecom Industry and the reserve price was set at approximately RMB64.16 million. The original cost of the Tongmao Interest, reflected from the aggregate of the paid-in capital in the accounts of Tongmao, amounted to approximately RMB38.378 million. Upon completion of the acquisition of the Tongmao Interest, Tongmao will become a subsidiary of the Company.

The Company has been providing telecommunications operators and other customers with telecommunications related logistics services and procurement agency services. The Board considers that the acquisition of the Tongmao Interest will enhance the Company's current logistics service business by optimizing its resources, and therefore establish a good base for future integration of its logistics and distribution businesses. The acquisition will enable the Company to grasp business opportunities arising from the growth in demand for telecommunications equipment and facilities by telecommunications operators and other corporate customers following the accomplishment of the telecommunications industry restructuring and the commencement of 3G era in the PRC.

### **Guoxin Lucent and Guoxin Lucent Interest**

Guoxin Lucent is a Sino-foreign equity joint venture incorporated in 1999 in Shanghai Municipality under PRC laws. It is 49% owned by Lucent Technologies (China) Co., Ltd., 41% owned by China Telecommunications Corporation and 10% owned by China Telecom Corporation Limited. The registered paid-in capital of Guoxin Lucent is approximately USD12 million (equivalent to approximately RMB99.34 million at the then applicable USD/RMB exchange rate).

The principal business activities of Guoxin Lucent are research, development and manufacturing of new advanced communications network management technologies and applications software, sales of self-manufactured products, system integration, network planning, technology consulting and other services.

The Guoxin Lucent Interest was put to open bid on the Shanghai Assets Exchange on 24 April 2009 by China Telecommunications Corporation and China Telecom Corporation Limited, and the reserve price was set at approximately RMB33.89 million. The original cost of the Guoxin Lucent Interest, reflected from the aggregate of the paid-in capital in the accounts of Guoxin Lucent, amounted to approximately USD6.12 million (equivalent to approximately RMB50.66 million at the then applicable USD/RMB exchange rate). Upon completion of the acquisition of the Guoxin Lucent Interest, Guoxin Lucent will become a subsidiary of the Company. The transfer of the Guoxin Lucent Interest is subject to approval by the PRC foreign investment approval authority.

Guoxin Lucent's businesses fall within the Company's third principal business area, namely, applications, contents and other (ACO) services, and Guoxin Lucent has established a good reputation in this area. Following the telecommunications industry restructuring and the commencement of 3G era in the PRC, the Board expects that there will be huge market demand for operators supporting systems related services. The Board believes that the acquisition of the

Guoxin Lucent Interest is an opportunity to grasp business opportunities by integrating and optimizing the Company's resources in its ACO business, for which Guoxin Lucent will be a flagship of the relevant businesses, and enhance the Company's overall competitiveness.

### **Telecom Engineering and Telecom Engineering Interest**

Telecom Engineering is a limited liability company incorporated in Shenzhen, Guangdong Province under PRC laws. It is currently 59% owned by Guangdong CCS, 40% owned by Shenda Telephone, and 1% owned by Guangdong Hongbo. The registered paid-in capital of Telecom Engineering is approximately RMB16 million.

The principal business activities of Telecom Engineering are laying and installation of telecommunications equipment and facilities, including long-distance and local communications equipment, wireless communications equipment, as well as long-distance and local calls exchange equipment; sales of telecommunications equipment and facilities; telecommunication information system integration; and telecommunications engineering and construction.

The Telecom Engineering Interest was put to open bid on the Beijing Assets Exchange on 28 April 2009 by Shenda Telephone and Guangdong Hongbo, and the reserve price was set at approximately RMB16.51 million. The original cost of the Telecom Engineering Interest, reflected from the aggregate of the paid-in capital in the accounts of Telecom Engineering, amounted to approximately RMB6.56 million.

Among the Telecom Engineering Interest, the 1% equity interest in Telecom Engineering is currently held by Guangdong Hongbo, an indirectly wholly-owned subsidiary of the Company. As a step of intra-group restructuring, the 1% equity interest was also put to open bid by Guangdong Hongbo according to the PRC regulations and acquired by Guangdong CCS along with the acquisition of the rest of the Telecom Engineering Interest (the *Intra-group Transfer*).

Upon completion of the acquisition of the Telecom Engineering Interest, Telecom Engineering will become 100% indirectly owned by the Company through Guangdong CCS, which will enable the Company to consolidate its control over Telecom Engineering, promote the implementation of the Company's strategy, improve operational efficiency, and enhance the Company's market leader position and competitiveness in the telecommunications infrastructure services area in Guangdong.

### **3. CONSIDERATION AND PAYMENT**

The Group will pay approximately RMB64.16 million for the Tongmao Interest, approximately RMB33.89 million for the Guoxin Lucent Interest, and approximately RMB16.51 million for the Telecom Engineering Interest.

The consideration is determined principally with reference to the reserve prices for each of the Target Interests set out in the relevant announcements published on the Shanghai Assets Exchange and the Beijing Assets Exchange, the appraisal value of each of the Target Interests as at the Date

of Appraisal as set out in the section headed “Financial Information” of this announcement, and the reasons for and benefits of the Acquisitions as set out in section 2 and section 6 of this announcement.

The consideration shall be paid in cash within 5 business days from the date of effectiveness of each of the Equity Transfer Agreements or on such other date as may be agreed by the relevant parties. The Group made a deposit equal to 20% and 30% of the relevant reserve price respectively upon submitting the bids for the Guoxin Lucent Interest and Telecom Engineering Interest which will be applied to the relevant total consideration. The Group intends to finance the Acquisitions by the Group’s internal resources.

Each of the Equity Transfer Agreements was entered into separately and independently and the considerations have been reached through an open bid process and subsequent arm’s length negotiations and on normal commercial terms.

#### **4. COMPLETION AND CONDITIONS PRECEDENT**

Completion of each of the Acquisitions is conditional upon the following:

- (i) approvals of the Acquisitions by the Target Companies and the relevant Vendors respectively in accordance with their articles of association;
- (ii) obtaining all necessary approvals from the relevant governmental and regulatory authorities, if any;
- (iii) there being no material adverse change to the financial condition, business operations or prospects of the relevant Target Companies; and
- (iv) all representations or warranties for the Acquisitions by the Vendors remain true and accurate.

Completion of the acquisition of each of the Target Interests will take place on the date of the relevant transfer being registered for alteration with the PRC industry and commerce administrative authorities.

Moreover, under each of the Equity Transfer Agreements, the Group is entitled to terminate the agreement prior to completion if the representations and warranties made by the respective Vendor(s) under the respective Equity Transfer Agreements are discovered to be untrue or inaccurate.

As the Equity Transfer Agreements between the Group and each Vendor were separately entered into and are independent of each other, any failure to perform one of the Equity Transfer Agreements shall not in any way affect the validity and performance of any other Equity Transfer Agreements.

## 5. FINANCIAL INFORMATION

Based on Tongmao's management accounts, Tongmao's profit before and after tax and extraordinary items for the year ended 31 December 2007 was approximately RMB11.96 million and RMB10.17 million respectively, and for the year ended 31 December 2008 was approximately RMB11.94 million and RMB9.70 million respectively; and the book value of the net assets of Tongmao as at 31 December 2008 was approximately RMB65.04 million. According to a valuation based on cost-method, the appraisal value of the Tongmao Interest as at 31 December 2008 was approximately RMB64.16 million. The appraisal was conducted by an independent third-party PRC qualified appraiser engaged by the relevant Vendors in accordance with the requirements of the relevant PRC rules and regulations relating to state-owned assets.

Based on Guoxin Lucent's management accounts, Guoxin Lucent's profit before and after tax and extraordinary items for the year ended 31 December 2007 was approximately RMB3.77 million and RMB3.69 million respectively, and for the year ended 31 December 2008 was approximately RMB2.36 million and RMB2.34 million respectively; and the book value of the net assets of Guoxin Lucent as at 31 December 2008 was approximately RMB65.85 million. According to a valuation based on cost-method, the appraisal value of the Guoxin Lucent Interest as at 31 December 2008 was approximately RMB33.89 million. The appraisal was conducted by an independent third-party PRC qualified appraiser engaged by the relevant Vendors in accordance with the requirements of the relevant PRC rules and regulations relating to state-owned assets.

Based on Telecom Engineering's management accounts, Telecom Engineering's profit before and after tax and extraordinary items for the year ended 31 December 2007 was approximately RMB21.19 million and RMB18.51 million respectively, and for the year ended 31 December 2008 was approximately RMB28.10 million and RMB23.72 million respectively; and the book value of the net assets of Telecom Engineering as at 31 January 2009 was approximately RMB33.82 million. According to a valuation based on discounted cash flow method, the appraisal value of the Telecom Engineering Interest as at 31 January 2009 was approximately RMB16.51 million. The appraisal was conducted by an independent third-party PRC qualified appraiser engaged by the relevant Vendors in accordance with the requirements of the relevant PRC rules and regulations relating to state-owned assets.

A valuation of assets based on discounted cash flows is regarded as a profit forecast under the Listing Rules. Accordingly, under Rule 14A.56(8) of the Listing Rules, the Company is required to comply with the relevant requirements in Rule 14.62 of the Listing Rules in relation to profit forecast. Having considered the factors below, the Company has applied and was granted a waiver by the Stock Exchange from strict compliance with Rule 14A.56(8) of the Listing Rules:

The above valuation of the Telecom Engineering Interest was of limited reference value only to the Company's purchase decision. The Company has considered various factors in evaluating the fairness of the reserve price with reference to which the consideration for the Telecom Engineering Interest has been reached. Such factors include the business strategies of the Company, market comparables and financials of Telecom Engineering.

- business strategy consideration: as set out in section 2 of this announcement, the Board of the Company believes that the acquisition of the Telecom Engineering Interest will enable the Company to consolidate its control over Telecom Engineering, promote the implementation of the Company's strategy, improve operational efficiency, and enhance the Company's market leader position and competitiveness in the telecommunications infrastructure services area in Guangdong Province, which is one of the most important market of the Company.
- market comparables: the Company is the main market player in the telecommunications infrastructure services market in China, which is also the principal business of Telecom Engineering. Accordingly, the Company has mainly used its P/E ratio for the valuation. The historical 2008 P/E ratio for the Company is about 18 times based on the Company's 2008 financial results and the 30 trading days average closing price up to 22 May 2009. As a result, an acquisition of the Telecom Engineering Interest at the reserve price will represent a historical 2008 P/E ratio of about 2 times, which is at a relatively reasonable discount and in the interest of the Company.
- financials: the Company mainly considered the book value of the Target Interest and compared it with the reserve price. For the Telecom Engineering Interest, the corresponding net assets value is RMB13.87 million, which represents a RMB2.64 million difference from the reserve price of RMB16.51 million. The Company considers the difference is reasonable given the appreciation of property of Telecom Engineering and the value of good-will and intangible assets on top of the net assets value of Telecom Engineering.

Based on an overall evaluation of the above factors, the Board considers the reserve price for the Telecom Engineering Interest is fair and reasonable.

The parties to the Equity Transfer Agreements agreed that the relevant purchasers will enjoy or assume the profit or loss of the Target Companies corresponding to the Target Interests after the Date of Appraisal of each of the Target Interests in accordance with the PRC laws.

Upon completion of the Acquisitions, each of Tongmao and Guoxin Lucent will become a subsidiary of the Company respectively, and their financial results will be consolidated into the accounts of the Group. Telecom Engineering will become 100% indirectly owned by the Company. It is expected that the Acquisitions will not have any material impact on the earnings, total assets and liabilities of the Group.

## **6. REASONS FOR AND BENEFITS OF THE ACQUISITIONS**

Further to the reasons detailed in section 2 above separately for the acquisition of each of the Target Interests, the Board is of the view that the Acquisitions are in line with the Company's current businesses as a specialized telecommunications support services provider, and will provide the Group with an opportunity to provide better services to telecommunication operator customers, strengthen its market leader position and competitiveness, and enjoy benefits from the increased

demand for its services following the commencement of 3G era in the PRC in the beginning of 2009. The Board believes that the Acquisitions would be in line with the Company's objective of creating long-term value for its shareholders.

## **7. INFORMATION ON THE PARTIES**

### **The Company, Shanghai CCS and Guangdong CCS**

The Company is engaged in the investment holding of companies primarily involved in the provision of telecommunications infrastructure services, business process outsourcing services and ACO services to telecommunications operators, equipment manufacturers, corporate customers, government agencies and public customers in the PRC.

Shanghai CCS and Guangdong CCS are each a wholly-owned subsidiary of the Company primarily operating in Shanghai Municipality and Guangdong Province respectively.

### **China Telecommunications Corporation**

China Telecommunications Corporation is a state-owned enterprise, the controlling shareholder of the Company, engaged in the investment holding of companies primarily involved in the provision of telecommunications services, the provision of specialized telecommunications support services and other businesses.

### **China Telecom Corporation Limited**

China Telecom Corporation Limited is a joint stock limited company listed on the main board of the Stock Exchange and incorporated in the PRC with limited liability on 10 September 2002. Its principal business includes the provision of basic communications services including comprehensive wire line telecommunications services, mobile telecommunications services, and the provision of Internet access services, integrated information services and other related telecommunications value-added services.

China Telecom Corporation Limited is a subsidiary of China Telecommunications Corporation.

### **Shanghai Telecom Industry**

Shanghai Telecom Industry is a state-owned limited liability company incorporated in Shanghai Municipality. Its principal business activities are non-restricted post and telecommunication services, agency services, communications engineering, building engineering, information engineering, communications equipment sales, property management, food and beverage services and real estate development.

Shanghai Telecom Industry is a wholly-owned subsidiary of China Telecommunications Corporation.



## **Shenda Telephone**

Shenda Telephone is a Sino-foreign cooperative joint venture incorporated in Shenzhen, Guangdong Province. Its principal business activities are public telephone service in Shenzhen and long-distance and international telephone service.

Shenda Telephone is an indirectly wholly-owned subsidiary of China Telecommunications Corporation.

## **Guangdong Hongbo**

Guangdong Hongbo was incorporated in 1993 in Guangdong Province. Its principal business activity is investment holding.

Guangdong Hongbo is indirectly wholly owned by the Company.

## **8. IMPLICATIONS UNDER THE LISTING RULES**

As the relevant Vendors are either China Telecommunications Corporation, the controlling shareholder of the Company with a 52.6% shareholding of the Company as at the date of this announcement, or its subsidiaries, the Vendors (except Guangdong Hongbo) are connected persons of the Company under the Listing Rules. Accordingly, the Acquisitions (except for the Intra-group Transfer) each constituted a connected transaction of the Company.

As the relevant percentage ratios involved in the Acquisitions under Chapter 14A of the Listing Rules exceed 0.1% but are less than 2.5%, the entering into of the Equity Transfer Agreements (except for the Intra-group Transfer) constitute connected transactions of the Company subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Board has approved each of the Acquisitions. Mr. Li Ping, chairman of the Board and an executive Director, and Mr. Zhang Zhiyong, an executive Director, both of whom hold positions at China Telecommunications Corporation, have abstained from voting on each of the Acquisitions. The Directors (including the independent non-executive Directors) are of the view that the Acquisitions are on normal commercial terms and in the ordinary and usual course of business of the Company, the consideration payable and payment method for each of the Acquisitions and the other terms of the Equity Transfer Agreements are fair and reasonable and each of the Acquisitions is in the interests of the Company and its shareholders taken as a whole.

The Board confirms that there was no previous transaction between the Group and China Telecom Group which may require aggregation under Rule 14A.25 of the Listing Rules.

## 9. DEFINITIONS

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

“Acquisitions”	the proposed acquisitions by the Group of the Target Interests pursuant to the Equity Transfer Agreements, comprising the acquisition of the Tongmao Interest, the Guoxin Lucent Interest and the Telecom Engineering Interest, details of which are set out in this announcement
“Beijing Assets Exchange”	China Beijing Equity Exchange (北京產權交易所)
“Board”	the board of directors of the Company
“Company”	China Communications Services Corporation Limited (中國通信服務股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 30 August 2006, whose H Shares are listed on the Stock Exchange
“China Telecom Group”	China Telecommunications Corporation and its subsidiaries (excluding the Group)
“Date of Appraisal”	31 December 2008 for Tongmao and Guoxin Lucent, and 31 January 2009 for Telecom Engineering, being the benchmark dates used in the appraisal of the net assets of the relevant Target Companies
“Director(s)”	the director(s) of the Company
“Equity Transfer Agreements”	the equity transfer agreements each dated 26 May 2009 between the Company, Shanghai CCS or Guangdong CCS (as the case may be) as the purchaser and each of the relevant Vendor(s) relating to the Acquisitions
“Group”	the Company and its subsidiaries
“Guangdong CCS”	Guangdong Communications Services Company Limited* (廣東省通信產業服務有限公司)
“Guangdong Hongbo”	Guangdong Hongbo Communications Investment and Holding Co. Ltd* (廣東鴻波通信投資控股有限公司)
“Guoxin Lucent”	Guoxin Lucent Technologies Network Technologies Co., Ltd.* (國信朗訊科技網絡技術有限公司)

“Guoxin Lucent Interest”	a 51% equity interest in Guoxin Lucent currently held by China Telecommunications Corporation (41%) and China Telecom Corporation Limited (10%)
“H Share(s)”	overseas listed foreign invested shares in the Company’s issued share capital with a par value of RMB1.00 per share which are listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Intra-group Transfer”	the acquisition of the 1% equity interest of Telecom Engineering by Guangdong CCS from Guangdong Hongbo, each being a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China and for the purpose of this announcement, excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Assets Exchange”	Shanghai United Assets and Equity Exchange (上海聯合產權交易所)
“Shanghai CCS”	Shanghai Communications Services Company Ltd* (上海市信產通信服務有限公司)
“Shanghai Telecom Industry”	Shanghai Telecommunications Industry (Group) Company* (上海電信實業(集團)有限公司)
“Shenda Telephone”	Shenzhen Shenda Telephone Co. Ltd.* (深圳深大電話有限公司)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Target Companies”	namely, Tongmao, Guoxin Lucent and Telecom Engineering
“Target Interest(s)”	namely, Tongmao Interest, Guoxin Lucent Interest and Telecom Engineering Interest

“Telecom Engineering”	Shenzhen Telecom Engineering Co. Limited* (深圳市電信工程有限公司)
“Telecom Engineering Interest”	a 41% equity interests in Telecom Engineering currently held by Shenda Telephone (40%) and Guangdong Hongbo (1%)
“Tongmao”	Shanghai Tongmao Import & Export Co. Ltd.* (上海通貿進出口有限責任公司)
“Tongmao Interest”	a 95.945% equity interest in Tongmao currently held by Shanghai Telecom Industry
“USD”	United States dollars, the lawful currency of the United States
“Vendor(s)”	in respect of the Tongmao Interest, being Shanghai Telecom Industry; or  in respect of Guoxin Lucent Interest, being China Telecommunications Corporation and China Telecom Corporation Limited; or  in respect of Telecom Engineering Interests, being Shenda Telephone and Guangdong Hongbo;  or any or all of above, as the case may be

By order of the Board  
**China Communications Services Corporation Limited**  
**Li Ping**  
*Chairman*

Beijing, PRC, 26 May 2009

*As at the date of this announcement, our executive Directors are Mr. Li Ping (Chairman), Mr. Zhang Zhiyong (President) and Mr. Yuan Jianxing (Executive Vice President and Chief Financial Officer), the non-executive Directors are Mr. Liu Aili and Mr. Zhang Junan, and the independent non-executive Directors are Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin.*

\* *For identification purpose only*