



Tianjin TEDA Biomedical Engineering Company Limited

天津泰達生物醫學工程股份有限公司

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

Bearing
the **Essential Key**
to health and future



Third Quarterly Report 2004

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This report, for which the directors of Tianjin TEDA Biomedical Engineering Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Tianjin TEDA Biomedical Engineering Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover decreased by 23.6% when compared to the corresponding period last year to approximately RMB31,320,000 for the nine months ended 30 September 2004.
- Gross profit margin was improved from 46.1% of the corresponding period last year to 49.8% of that of this year.
- The decrease in sales turnover is mainly due to the late placing of purchase orders of medical equipment from the hospital in Tianjin with the Group as compared with that of for the corresponding period of last year.
- The sale of diabetic health food and fungi health products showed steady improvement.
- Loss attributable to shareholders for the nine months ended 30 September 2004 was approximately RMB14,403,000, a 50% increase from the corresponding period last year.

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited quarterly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the three months and the nine months ended 30 September 2004, together with the comparative figures of the corresponding period in 2003 as follows:

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2004 <i>RMB</i> <i>(Unaudited)</i>	2003 <i>RMB</i> <i>(Unaudited)</i>	2004 <i>RMB</i> <i>(Unaudited)</i>	2003 <i>RMB</i> <i>(Unaudited)</i>
Turnover	2	11,953,184	16,660,110	31,320,451	41,113,335
Less: sales tax		(77,740)	(4,310)	(111,906)	(84,068)
Cost of sales		<u>(5,192,179)</u>	<u>(9,334,544)</u>	<u>(15,608,809)</u>	<u>(22,088,395)</u>
Gross profit		6,683,265	7,321,256	15,599,736	18,940,872
Selling and distribution costs		(3,946,781)	(4,869,315)	(12,929,557)	(13,104,805)
R&D and administrative expenses		<u>(4,487,748)</u>	<u>(3,839,799)</u>	<u>(19,452,626)</u>	<u>(16,399,388)</u>
Operating loss		(1,751,264)	(1,387,858)	(16,782,447)	(10,563,321)
Other income less other expenses		81,957	1,110,110	1,329,470	1,884,917
Amortization on goodwill		(61,197)	(76,469)	(1,477,616)	(228,179)
Finance expense		<u>(745,865)</u>	<u>(181,196)</u>	<u>(2,163,096)</u>	<u>(1,006,337)</u>
Loss before tax		(2,476,369)	(535,413)	(19,093,689)	(9,912,920)
Taxation	3	<u>(25,155)</u>	<u>–</u>	<u>(34,412)</u>	<u>–</u>
Loss after tax		(2,501,524)	(535,413)	(19,128,101)	(9,912,920)
Minority interests		<u>8,538</u>	<u>205,814</u>	<u>4,725,058</u>	<u>326,549</u>
Net loss attributable to the shareholders		<u>(2,492,986)</u>	<u>(329,599)</u>	<u>(14,403,043)</u>	<u>(9,586,371)</u>
Loss per share					
– Basic	4	<u>(0.623) cents</u>	<u>(0.082) cents</u>	<u>(3.601) cents</u>	<u>(2.397) cents</u>

Notes:

1. Basis of presentation

The principal accounting policies adopted in preparing the unaudited quarterly results are under historical cost convention and in accordance with the relevant Statements of Standard Accounting Practice issued by Hong Kong Institute of Certified Public Accountants and the accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

2. Turnover

The Group's turnover is derived principally from the sales of diabetic health products and other medical and health products.

An analysis of the Group's turnover by segments is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Turnover:				
Diabetic health products	8,589,958	9,459,858	22,196,031	20,845,298
Other medical & health products	3,363,226	7,200,252	9,124,420	20,268,037

3. Taxation

a. Enterprise income tax ("EIT")

The Company, being a production Sino-foreign equity joint stock limited company incorporated in the People's Republic of China (the "PRC") with limited liability, is subject to 30% state income tax and 3% local income tax.

In accordance with the applicable tax rules and regulations, the Company, being a production Sino-foreign equity joint stock limited company located in Tianjin Economic-Technological Development Area ("TEDA"), shall be eligible for state EIT at a reduced rate of 15%. It is also entitled to exemption from state EIT for two years commencing from the first profit-making year after offsetting prior years' losses, followed by a 50% reduction of state EIT for the next three years thereafter. In addition, the Company shall enjoy exemption from 3% local EIT during its actual operational period in TEDA.

For the period ended 30 September 2004, there was no assessable profit to EIT generated by the Group except for Tianjin Alpha Health Care Products Co., Ltd. (“Alpha”). Alpha, being a Sino-foreign equity joint venture enterprise located in TEDA, is eligible for state EIT at a reduced rate of 15%. It is also entitled to an exemption from state EIT for two years commencing from its first profit-making year after offsetting previous years’ losses, followed by a 50% reduction of state EIT for the three years thereafter. In addition, Alpha is also entitled to an exemption from 3% local EIT during its actual operational period in TEDA. Alpha, being at its third year from its first profit-making year, is entitled to 50% reduction of state EIT for the year ending 31 December 2004.

Beijing TEDAX² Medical Engineering Company Limited (“TEDAX²”) and Beijing Xinxing Bio-medical Engineering Research and Development Institute (“Beijing Xinxing”), being limited companies incorporated in the PRC, are subject to 30% state EIT and 3% local EIT. Since TEDAX² and Beijing Xinxing are recognized as new and high technology enterprises operating in Beijing New and High Technology Development Provisional Zone (“BNHTDPZ”), they are entitled to a reduced EIT rate of 15%. Moreover, TEDAX² and Beijing Xinxing shall be entitled to exemption from state EIT for three years commencing from the first operation date. Accordingly, TEDAX² is exempted from state EIT during the period under review.

Tianjin Wan Tai Bio-development Company Limited (“Wan Tai”), and Tianjin Yisheng Bioengineering Co. Ltd. (“Yisheng”) being limited companies incorporated in the PRC, are subject to 30% state EIT and 3% local EIT.

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) of the assessable profits for the year. The income tax charge in Hong Kong is nil for the period ended 30 September 2004 (2003: Nil) as the Company did not carry on any business in Hong Kong during the period.

Taxation in the PRC jurisdiction is calculated at 33%. The income tax charge in the PRC is RMB34,412 for the period ended 30 September 2004 (September 2003: Nil).

The charge for the period can be reconciled to the loss per the profit and loss account as follows:

	For the nine months ended	
	30 September 2004	30 September 2003
	<i>RMB('000)</i>	<i>RMB('000)</i>
Loss before tax	(19,094)	(9,913)
Calculated at a taxation rate of 33%	(5,870)	(1,735)
Tax rate differential	2,715	(1,536)
Effect of tax holiday exemption	–	(591)
Effect of the tax losses on consolidation	2,882	4,438
Tax effect of income that are not assessable/expenses that are not deductible in determining taxable profit	307	(576)
Tax expense for the period	<u>34</u>	<u>–</u>

4. Loss per share

The calculation of the basic loss per share for the three months ended 30 September 2004 was based on the unaudited loss attributable to shareholders for the period of RMB2,492,986 (2003: RMB329,599) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2003: 400,000,000 shares).

The calculation of the basic loss per share for the nine months ended 30 September 2004 was based on the unaudited loss attributable to shareholders for the period of RMB14,403,043 (2003: RMB9,586,371) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2003: 400,000,000 shares).

Diluted loss per share is not presented as there is no dilutive potential shares (2003: no diluted loss per share).

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: Nil).

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

	Share Capital <i>RMB</i>	Accumulated losses <i>RMB</i>	Share premium <i>RMB</i>	Capital reserve <i>RMB</i>	Total <i>RMB</i>
Balance as at 1 January 2003 (Audited)	40,000,000	(33,642,301)	62,031,951	2,541,404	70,931,054
Net loss attributable to the shareholders for the three months ended 31 March 2003	-	(2,987,497)	-	-	(2,987,497)
Balance as at 31 March 2003 (Unaudited)	40,000,000	(36,629,798)	62,031,951	2,541,404	67,943,557
Net loss attributable to the shareholders for the three months ended 30 June 2003	-	(6,269,275)	-	-	(6,269,275)
Balance as at 30 June 2003 (Unaudited)	40,000,000	(42,899,073)	62,031,951	2,541,404	61,674,282
Net loss attributable to the shareholders for the three months ended 30 September 2003	-	(329,599)	-	-	(329,599)
Balance as at 30 September 2003 (Unaudited)	40,000,000	(43,228,672)	62,031,951	2,541,404	61,344,683
Balance as at 1 January 2004 (Audited)	40,000,000	(58,484,080)	62,031,951	2,541,404	46,089,275
Net loss attributable to shareholders for the three months ended 31 March 2004	-	(4,918,331)	-	-	(4,918,331)
Balance as at 31 March 2004 (Unaudited)	40,000,000	(63,402,411)	62,031,951	2,541,404	41,170,944
Net loss attributable to shareholders for the three months ended 30 June 2004	-	(6,991,726)	-	-	(6,991,726)
Balance as at 30 June 2004 (Unaudited)	40,000,000	(70,394,137)	62,031,951	2,541,404	34,179,218
Net loss attributable to the shareholders for the three months ended 30 September 2004	-	(2,492,986)	-	-	(2,492,986)
Balance as at 30 September 2004 (Unaudited)	40,000,000	(72,887,123)	62,031,951	2,541,404	31,686,232

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the nine months ended 30 September 2004, sales turnover of the Group amounted to approximately RMB31,320,000, representing a decrease of 23.6% from the corresponding period of last year. The gross profit margin for the nine months ended 30 September 2004 of 49.8% was higher than that of for the corresponding period last year of 46.1%. The main reason for the decrease in sales turnover when compared to the same period of last year was due to the late placing of purchase orders of sold medical equipment by a hospital in Tianjin as compared with that of for the corresponding period of last year. Net loss attributable to shareholders also increased from approximately RMB9,586,000 last year to RMB14,403,000 this year. However the trend of the net loss has been improved from approximately RMB4.92 million and RMB6.99 million in the 1st and the 2nd quarter of 2004 respectively to approximately RMB2.49 million in 3rd quarter of 2004.

For the nine months ended 30 September 2004, the sale of (i) diabetic health products and (ii) other medical and health products contributed to 70.9% and 29.1% of the Group's total turnover respectively.

Medical equipment and biomaterials

Since 30 June 2004, the Group obtained the Production Registration Certificate of intraocular lens ("IOL") which was issued by State Food and Drug Administration ("SFDA") of the PRC and the Group recorded total sales of approximately RMB152,000 of IOL in the 3rd quarter of 2004 (2003: Nil). The high quality of the Group's IOL gained its reputation among the doctors who used our products to cataract patients in surgery operation.

Apart from the IOL, the Group continued to launch medical equipment under the "TEDA" brand name through its subsidiary, Beijing TEDAX² Medical Engineering Company Limited ("TEDAX²"). During the nine months ended 30 September 2004, TEDAX² contributed approximately RMB4,690,000 (2003: RMB7,350,000) to the Group's sales turnover. The decrease in sales contributed by TEDAX² was mainly due to the fierce competition of the market of medical equipment. In order to tackle with the competition, TEDAX² plans to introduce new models of multi-parameters monitoring equipment to the market.

Diabetic health products

After establishing “Alpha” as one of the prestigious brands for diabetic health foods in the PRC, the sales of Alpha products has continuously shown a steady growth in this year as compared to the same period of last year. For the nine months ended 30 September 2004, the sales turnover of Alpha products recorded approximately RMB22,196,000, representing an increase of approximately 6.5% from that of the corresponding period of 2003.

During the three months ended 30 September 2004, there was a strong demand for “ALPHA” sugar-free mooncakes mainly due to the reason that more and more people are interested in the consumption of sugar-free health food, disregarding whether they are elderly or young.

Other health products

Through the subsidiary of the Group, Tianjin Yisheng Bioengineering Co Ltd (“Yisheng”), the sales turnover of fungi health products in the third quarter of 2004 was nearly doubled that of the first half of 2004, reaching a total of approximately RMB1,707,000 for the nine months ended 30 September 2004. With the launching of various health care products of other fungi series based on the technology developed by Yisheng, the expected sale of Yisheng products will continue to rise.

Apart from fungi health products, the Group will also introduce another new product, namely TEDA functional cotton, which may help to improve the health of elderly people after using various products made up of TEDA functional cotton. Such products include small items like T-shirt and big items like bed sheet and blankets.

Sales and marketing

During the nine months ended 30 September 2004, the Group’s sales and marketing expenses amounted to approximately RMB12,930,000, which is slightly less than that incurred in the same period of last year (2003: RMB13,105,000), despite an increase in advertising expenses for promotion of Alpha products.

Tianjin Wan Tai Bio-development Co. Ltd. (“Wan Tai”), acting as the sale vehicle of the Group, will continue to concentrate on the sale of medical equipment accessories to PRC hospitals. Simultaneously, Wan Tai will also explore other opportunities in achieving its sales target to PRC hospitals.

Research and development (“R&D”) and Administration

After ignoring the effect of the written off of proprietary technologies of approximately RMB2,800,000 and amortization of goodwill of approximately RMB1,478,000, the R&D and administration expenses amounted to approximately RMB15,175,000 for the nine months ended 30 September 2004, which is less than that incurred in the same period of last year (2003: RMB16,171,000).

Set up of new equity joint venture enterprise

Pursuant to an announcement issued by the Board in September 2004, the Company will contribute cash of RMB9,180,000 for the set up of a Sino-foreign equity joint venture enterprise, of which the Company holds 51% equity interests. The name of this new enterprise is Shandong TEDA Bio-engineering Co Ltd (“Shandong TEDA”) which will be engaged in the research & development, production and sale of biological fertilizer, combined fertilizer, mixed fertilizer and plant fertilizer including the application of related technology. The business licence of Shandong TEDA was issued on 18 September 2004 with an operational period of 50 years.

Future development

The Group will continue to position itself in the research and development and the subsequent commercialization of various products in two areas: personal health products as well as medical equipment and biomaterials.

The successful launching of the IOL to the market has given full confidence to the management in maintaining the Group’s top quality products in order for them to be accepted by the market. This would also enable the management to continue the research and development for improved models of sleeping status monitoring equipment in order to strengthen the future sale of medical equipment. The design of monitoring equipment without electrodes is highly expected by the management to be widely accepted by its target customers.

The steady growth of the sale of Alpha and Yisheng health products will support the cashflow of the Group as a whole in maintaining a sound financial situation. The management believes that the sales of Yisheng health products through chain stores will set up a new sales model in future operation.

Finally, the Group shall continue its cost reduction program in order to lower its operating expenses so as to maximize the returns to the shareholders of the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

Directors' and Supervisors' interests and Short Positions in shares, underlying shares and debentures

As of 30 September 2004, the interests of the Directors and the Supervisors of the Company and their respective associates in the Company and its associated corporations were as follows:

Long position in ordinary shares of RMB0.1 each in the Company:

	Number of shares held and nature of interests				Percentage of the issued Total share capital	
	Personal (Note)	Family	Corporate	Other		
Directors						
Professor Gu Hanqing	14,000,000	-	-	-	14,000,000	3.5%
Mr. Xie Kehua	9,000,000	-	-	-	9,000,000	2.25%

Note: All represented domestic shares

Save as disclosed in this paragraph, as at 30 September 2004, none of the directors and the supervisors of the Company had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

At no time during the period was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and the supervisors of the Company or their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons (other than the directors and the supervisors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long position in ordinary shares of RMB0.1 each in the Company:

Name of shareholders	Capacity	Number of ordinary shares	Percentage of the issued share capital
Tianjin TEDA International Incubator	Beneficial owner	255,000,000 <i>(Note 1)</i>	63.75%
Mr. Wu Xiaofang	Beneficial owner	10,000,000 <i>(Note 1)</i>	2.5%
	Interest of a controlled corporation	10,000,000 <i>(Notes 1 & 2)</i>	2.5%

Notes:

1. All represented domestic shares.
2. The 10,000,000 shares are owned by Tianjin Shuang You Technology Development Company Limited, 50% of the share capital of which is owned by Mr. Wu Xiaofang and he is deemed to have interest in such 10,000,000 shares pursuant to the provisions of the SFO.

Save as disclosed above, as at 30 September 2004, the Directors were not aware of any other person (other than the directors and the supervisors of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

SPONSOR'S INTEREST

According to the notification from our sponsor, CSC Asia Limited, none of CSC Asia Limited, its directors, employees nor associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for the securities of the Company or any member of the Group as at 30 September 2004.

COMPETING INTERESTS

During the nine months ended 30 September 2004, none of the directors, the supervisors, or the management shareholders and their respective associates (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”)) of the Company had any interest in a business which competed or might compete with the business of the Group.

PLACING ARRANGEMENT

Pursuant to a placing mandate signed between the Company and Sun Hung Kai International Limited (“SHK”) dated 3 December 2003, SHK has been authorized to place new H shares (the “Placing”) of not more than 35% or less than 30% of the entire issued share capital of the Company to raise gross proceeds of not less than HK\$40,000,000 for the Company.

At the extraordinary general meeting (“EGM”) held on 2 February 2004, the shareholders of the Company passed the resolutions in respect of: (i) the Specific Mandate (as defined in the circular to the shareholders of the Company relating to the Placing date 19 December 2003); (ii) the use of proceeds raised under the Placing; (iii) the amendments to the Articles of Association of the Company and (iv) the placing as a possible major transaction of the Company within the meaning of the GEM Listing Rules.

At the further EGM held on 18 June 2004, the shareholders of the Company passed the resolution to change the time for completion of the Placing to within six months after the date of further EGM.

Pursuant to an announcement issued by the Board on 29 October 2004, the Company entered into a Supplemental Agreement with SHK for the granting of the new placing mandate to SHK subject to the following terms:

- (i) The removal of the requirement for minimum gross proceeds of HK\$40,000,000 to be raised under the Placing;
- (ii) The removal of the requirement for the new placing H shares to be placed to be not less than 30% of the entire issued share capital of the Company; and
- (iii) The lowering of the placing price range from HK\$0.186 and HK\$0.233 to HK\$0.161 and HK\$0.186.

The reason for the above changes is to provide for greater flexibility for the Placing to proceed in light of existing market condition. The remaining terms and conditions of the placing mandate signed between the Company and SHK dated 3 December 2003 shall remain valid.

The placing price will be determined and agreed by the Company and SHK by reference to the average of the closing price of the H Shares for the five trading days before the date of the future EGM which is scheduled to be held on 21 December 2004.

At the future EGM, the Directors would like to seek a further specific mandate from the shareholders of the Company to issue the new H Shares under the above terms (i), (ii) and (iii) and the effective period of the further specific mandate will be for a period of six months from 21 December 2004.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee of the Company were prepared and adopted with reference to “A Guide for the Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal control and risk evaluation. The Audit Committee comprises three independent non-executive Directors, namely Professor Xan Guoming, Professor Xiao Zhuoji, and Ms. Zhao Xiuying. Four Audit Committee meetings were held during the nine months ended 30 September 2004.

SHARE OPTION SCHEME

During the nine months ended 30 September 2004, none of the directors or the supervisors or employees or other participants of the share option scheme of the Company was granted with options to subscribe for the H shares of the Company. As at 30 September 2004, none of the directors or the supervisors or employees or other participants of the share option scheme had any right to acquire the H shares in the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2004, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company’s shares.

PRACTICES AND PROCEDURES OF THE BOARD

For the nine months ended 30 September 2004, the Group has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures.

By Order of the Board

Wang Shu Xin

Chairman

Tianjin, PRC, 12 November 2004

As at the date of this report, the Board comprises four executive directors, being Wang Shuxin, Xie Kehua, Gu Hanqing and Zheng Dan; three non-executive directors, being Feng Enqing, Liu Zhenyu and Xie Guangbei; and three independent non-executive directors, being Xian Guoming, Xiao Zhuoji and Zhao Xiuying.