



天津泰達生物醫學工程股份有限公司
Tianjin TEDA Biomedical Engineering Company Limited
(a joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 8189)

THIRD QUARTERLY REPORT 2007

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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

- For the nine months ended 30 September 2007, turnover was increased by 13.5% from that of recorded in the corresponding period of last year and amounted to approximately RMB246,689,089.
- Gross profit increased by 18.1% from the corresponding period of last year to approximately RMB38,253,477.
- For the nine months ended 30 September 2007, the gross profit margin increased to 15.51% from 14.9% that recorded in the corresponding period of last year. For the three months ended 30 September 2007, the gross profit margin was approximately 21.32%, higher than that of 16.91% recorded in the corresponding period of last year.
- For the nine months ended 30 September 2007, the net loss attributable to equity holders of the Group dropped by 38.42% to RMB1,301,152 from approximately RMB2,112,877 recorded in the corresponding period of last year.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited third quarterly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the three months and nine months ended 30 September 2007, together with the comparative figures of the corresponding period of 2006 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2007 (Unaudited) RMB	2006 (Unaudited) RMB	2007 (Unaudited) RMB	2006 (Unaudited) RMB
Turnover	2	86,948,411	68,681,160	246,689,089	217,361,405
Less: sales tax		–	(1,049)	–	(11,927)
Cost of sales		(68,410,688)	(57,065,857)	(208,435,612)	(184,959,398)
Gross profit		18,537,723	11,614,254	38,253,477	32,390,080
Other (expenditure)/revenue		(233,502)	(278,498)	(249,720)	709,818
Distribution and selling expense		(6,287,612)	(4,831,038)	(19,187,270)	(16,287,997)
R&D and administrative expenses		(3,326,062)	(1,801,823)	(12,024,112)	(9,428,362)
Operating profit/(loss)		8,690,547	4,702,895	6,792,375	7,383,539
Finance costs		(3,295,044)	(1,659,624)	(7,652,913)	(4,474,105)
Amortization of goodwill on consolidation		–	151,710	–	–
Profit/(Loss) before taxation		5,395,503	3,194,981	(860,538)	2,909,434
Taxation	3	(606,636)	(114,679)	(753,221)	(114,679)
Profit/(loss) for the period		4,788,867	3,080,302	(1,613,759)	2,794,755
Attributable to:					
Equity holders of the Company		4,713,967	(51,103)	(1,301,152)	(2,112,877)
Minority interests		(74,900)	3,131,405	312,607	4,907,632
		4,788,867	3,080,302	(1,613,759)	2,794,755
Profit/(Loss) per share	4	0.77 cents	(0.008) cents	(0.21) cents	(0.35) cents

Notes:

1. Basis of presentation

The condensed unaudited consolidated financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies and methods of computation used in the preparation of these financial statements are the same as those adopted in preparing the audited annual financial statements for the year ended 31 December 2006 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards (“HKFRSs”), HKAS and Interpretations (hereafter collectively referred to as the “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Company’s results of operations and financial position except that certain presentation and disclosures of the financial statements were changed.

The financial statements have been prepared on a going concern basis, assuming that the Group will continue to operate as a going concern, notwithstanding the fact that the Group suffered accumulated losses of RMB71,524,205 as at 30 September 2007. The validity of the Group’s ability to continue as a going concern depends on the success of the Group’s future operations and the ability of the Group to renew or replace the banking facilities as they fall due. The Group’s principal banker has extended and committed banking facility of up to RMB128 million to the Company. Drawdowns from this facility will be subject to the bank’s normal approval procedures. Consequently, the Directors have prepared the unaudited quarterly results for the nine months ended 30 September 2007 on the going concern basis.

2. Turnover

The Group’s turnover is derived principally from the sales of biological compound fertilizer products and 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	
	2007 RMB	2006 RMB	2007 RMB	2006 RMB
Turnover				
Biological compound fertilizer products	70,105,980	55,577,566	207,998,182	185,018,616
Medical & health products	16,842,431	13,103,594	38,690,907	32,342,789
	<u>86,948,411</u>	<u>68,681,160</u>	<u>246,689,089</u>	<u>217,361,405</u>

3. Taxation

(a) Enterprise income tax (“EIT”)

In 2003, the Company changed its tax status to that of a Foreign Investment Enterprises (“FIE”). In accordance with the relevant tax regulations, as a production FIE located in Tianjin Economic – Technological Development Area (“TEDA”), Tianjin, the People’s Republic of China (the “PRC”), the Company is eligible to enjoy the concessionary EIT of 15%. It is further entitled to exemption from EIT for two years commencing from the first profit-making year after offsetting prior years’ losses, followed by a 50% reduction for the next three years thereafter. In addition, the Company shall enjoy exemption from 3% local enterprise income tax during its actual operational period in TEDA, Tianjin, PRC. The Company has not provided for any EIT since the Company has no taxable income for the period.

Tianjin Alpha Healthcare Products Co., Ltd. (“Alpha”), being a production FIE located in TEDA, Tianjin, PRC, is also eligible for all the benefits enjoyed by the Company as described above. In 2007, Alpha is subject to the statutory 15% EIT (2006:7.5%).

Tianjin Wan Tai Bio-Development Co., Ltd. (“Wantai”), being a limited liability company incorporated in the PRC, is subject to the statutory 30% EIT and 3% local enterprise income tax. It has not provided for any EIT since it has no taxable income for the period (2006: nil).

SD Fulilong, being a production FIE incorporated in PRC, is entitled to exemption from EIT for two years commencing from the first profit-making year after offsetting prior years’ losses, followed by a 50% reduction for the next three years thereafter. For the year ended 30 September 2007, the Company was exempted from EIT for the second year, therefore no provision was made for any EIT (2006: Nil).

Guangdong Fulilong Compound Fertilizers Company Limited was exempted from EIT in the PRC as it was qualified as a welfare enterprise approved by the Guangdong Local Tax Bureau during the year ended 31 December 2005 and 31 December 2006. Starting from 2007, GD Fulilong is subject to the statutory 30% EIT and 3% local enterprise income tax in the PRC and such taxes are calculated at 15% income tax rate applicable to high and new technological enterprises by the year end. The excess amount will be available for offsetting the taxable EIT in the coming year.

(b) Income tax expense

	For the nine months ended 30 September	
	2007	2006
	<i>RMB’000</i>	<i>RMB’000</i>
Current Tax		
Hong Kong	Nil	Nil
Other Jurisdictions	753	115

The income tax charge in Hong Kong is Nil for the nine months ended 30 September 2007 (September 2006: Nil) as the Company did not carry on any business in Hong Kong during the period. The income tax charge in the PRC is RMB753,221 for the nine months ended 30 September 2007 (September 2006: RMB114,679).

The charge for the period can be reconciled to the profit as per the income statement as follows:

	For the nine months ended 30 September	
	2007	2006
	<i>RMB'000</i>	<i>RMB'000</i>
(Loss)/profit before tax	(1,301)	2,909
Tax calculated at the EIT rate of 33%	(429)	960
Effect of tax holiday exemption	—	—
Tax rate differential	(1,214)	(3,906)
Effect of the tax losses on consolidation	2,396	3,061
Tax effect of expenses that are not deductible in determining taxable profit	—	—
	<u>753</u>	<u>115</u>
Tax expense for the period	<u>753</u>	<u>115</u>

4. Profit/(Loss) per share

For the nine months ended 30 September 2007, the calculation of loss per share is based on the Group's unaudited loss attributable to equity holders of RMB1,301,152 (September 2006: loss of RMB2,112,877), divided by the total number of shares issued by the Company of 610,000,000 shares (September 2006: 610,000,000 shares). Diluted profit per share is not presented as there are no dilutive potential shares during the nine months of 2007.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2007 (September 2006: Nil).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2007

	Share Capital		Share Premium		Accumulated Losses		Capital Reserves		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Balance as at 1 January	61,000,000	61,000,000	75,089,571	75,089,571	(70,223,053)	(73,257,471)	2,541,404	2,541,404	68,407,922	65,373,504
Net profit/(loss) attributable to equity holders of the Company for the three months ended 31 March	—	—	—	—	(2,646,177)	101,361	—	—	(2,646,177)	101,361
Balance as at 31 March	61,000,000	61,000,000	75,089,571	75,089,571	(72,869,230)	(73,156,110)	2,541,404	2,541,404	65,761,745	65,474,865
Net profit/(loss) attributable to equity holders of the Company for the three months ended 30 June	—	—	—	—	(3,368,942)	(2,163,135)	—	(288,250)	(3,368,942)	(2,451,385)
Balance as at 30 June	61,000,000	61,000,000	75,089,571	75,089,571	(76,238,172)	(75,319,245)	2,541,404	2,253,154	62,392,803	63,023,480
Net profit/(loss) attributable to equity holders of the Company for the three months ended 30 September	—	—	—	—	4,713,967	(51,103)	—	—	4,713,967	(51,103)
Balance as at 30 September	<u>61,000,000</u>	<u>61,000,000</u>	<u>75,089,571</u>	<u>75,089,571</u>	<u>(71,524,205)</u>	<u>(75,370,348)</u>	<u>2,541,404</u>	<u>2,253,154</u>	<u>67,106,770</u>	<u>62,972,377</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the three months and nine months ended 30 September 2007, Tianjin TEDA Biomedical Engineering Company Limited (“TEDA Bio” or the “Company”, with its subsidiaries collectively referred to as the “Group”) was principally engaged in: (1) the biological compound fertilizer business, such as the biological compound fertilizer under the brand “Fulilong”; and (2) the medical healthcare products business, such as the diabetic health products and sugar-free health food products under the brand “Alpha” and intraocular lens products under the brand “TEDA”.

For the nine months ended 30 September 2007, the Group’s sale turnover was approximately RMB246,689,089, representing an increase of approximately 13.5% and approximately RMB29,327,684 as compared with the corresponding period of 2006. The consolidated gross profit margin increased from 14.9% to 15.51%, representing an increase in the gross profit to approximately RMB 38,253,477, resulting in a decrease of the net loss attributable to shareholders of the Company from approximately RMB2,112,877 in the corresponding period of last year to RMB1,301,151, representing a decrease of approximately 38.42%.

For the three months ended 30 September 2007, the Group’s sales turnover increased by approximately 26.6% as compared with the corresponding period in 2006. The consolidated gross profit margin of the Group increased from 16.91% to 21.32%. Such increase was mainly attributable to the rise in sales and gross profit margin of biological compound fertilizer products and medical & health products in the third quarter of this year. As a result, the net profit and loss attributable to the shareholders of the Company turned from a loss of RMB51,103 in the corresponding period of last year to a gain of RMB4,713,967.

Biological Compound

fertilizer products

For the three months and nine months ended 30 September 2007, the Group’s sales of biological compound fertilizer products amounted to RMB70,105,980 and RMB207,998,182, respectively. The sales of biological compound fertilizer products in the third quarter represented approximately 80.63% of the Group’s total sales for the same period. For the nine months ended 30 September 2007, the gross profit of the sale of fertilizer products amounted to approximately RMB20,684,230 (2006: RMB18,707,183). With the development of the PRC agriculture and the rise of added value of agricultural products, the utilization rate of compound fertilizer products in the PRC market will continue to grow. The Group expects the demand of compound fertilizer products in the PRC market will increase continually in the coming quarters of 2007.

As at 30 September 2007, the “Melt Granulation Method with High Tower” production line with an annual production capacity of 300,000 tones, which is located in Weifang, Shandong Province, of Shandong Fulilong Fertilizer Industry Co., Ltd. has reached the trial production stage. In the future, the Group, leverage on its existing production lines and sales channels of fertilizers under the brand names of “Fulilong”, will develop and expand its distribution channels throughout the PRC and promote its products as competitive fertilizer products in the high-end market.

Medical and health products

The Group's medical and health products include diabetes-treatment food products and cataract-treatment intraocular lens ("IOLs") products. The Group promotes the diabetes-treatment food products and sugar-free health food products under the brand "Alpha" in the PRC market and recorded steady rise in their sales. During the period under review, the sales of "Alpha" products increased by approximately 19.6% from the nine months ended 30 September 2006. The "Alpha" products contributed to the Group a sales of approximately RMB38,180,518 for the nine months ended 30 September 2007, compared to the sales of RMB31,925,038 in the corresponding period of last year. The gross profit margin of "Alpha" products for the nine months ended 30 September 2007 was 46.47% (corresponding period of 2006: 44.67%). For the three months ended 30 September 2007, the sales of "Alpha" products increased by 23% when compared with the corresponding period of last year. With the public's increasing awareness of health, it is expected that the market of sugar-free health food products will remain prosperous in the future.

Selling and marketing

For the nine months ended 30 September 2007, the Group's selling and marketing expenses amounted to approximately RMB19,187,270 (2006: RMB16,287,997), representing an increase of approximately 17.8% as compared with the corresponding period of last year. Such increase was mainly attributable to the increased sales of "Alpha" healthfood products and that SD Fulilong started trial production and launched marketing ahead of schedule.

Research and development and administration

For the nine months ended 30 September 2007, the Group's research and development and administrative expenses amounted to approximately RMB12,024,112 (2006: RMB9,428,362), representing an increase of approximately 27.53% as compared with the corresponding period of last year. The increase in research and development and administrative expenses was due to the commencement of trial production in SD Fulilong.

The total employees of the Group were increased from 645 (30 September 2006) to 733 (30 September 2007). The increase was also due to the employment of additional staff for the commencement of trial production in SD Fulilong.

Future Outlook

As farmers are relentlessly encouraged by the central government of the PRC to utilize effective fertilizer products to achieve better productivity and higher personal income, there will be increasing numbers of farmers utilizing quality fertilizers to boost agricultural output as well as significant development opportunity in the biological compound fertilizers market in the PRC.

With a rising living standard, aging population and higher awareness of health among people in the PRC, the demand for medical and health products will be steadily on the increase. The Group will develop more products that are suitable for a broader customer base.

With the Group's excellent business strategy, management experience and capability to expand its market, the management believes that the Group will be able to pursue higher returns for its shareholders.

Proposed amendment to the Articles of Association

The Company issued an announcement and a circular on 14 June 2006 and 16 June 2006, respectively, in relation to the transfers of 10,000,000 (an aggregate of 20,000,000) domestic shares of the Company held by Tianjin TEDA Shuang You Technology Development Company Limited (“SYT”) to each of Mr. Wu Xiaofang (吳曉芳先生) and Mr. Wang Shaoyun (汪少雲先生). The relevant transactions were not approved by the Ministry of Commerce and were terminated by the parties in August 2007.

The Company issued an announcement and a circular on 24 August 2007 and 4 September 2007, respectively, in relation to that SYT, as the vendor, entered into agreements with Guangzhou Wenguang Media Company Limited (“Wenguang Media”) on 15 August 2007 and Beijing Zhongxing Wuhuan Building Materials Company Limited (“Wuhuan Building”) on 16 August 2007 for the transfer of 10,000,000 domestic shares of the Company (an aggregate of 20,000,000 domestic shares, representing 3.28% of the total issued share capital of the Company) to each of them. In addition, on 15 August 2007, Mr. Yang Fusheng (楊福生先生), a promoter of the Company, also entered into an agreement for the sale of 2,000,000 domestic shares of the Company (representing 0.33% of the total issued share capital of the Company) to Wenguang Media.

The Board proposed to amend Article 20 of the Articles in order to reflect the transfers of 12,000,000 and 10,000,000 domestic shares of the Company to Wenguang Media and Wuhuan Building, respectively, both of which and their respective ultimate shareholders are independent third parties not connected with the promoters, the directors, the supervisors, the chief executive, the substantial or the management shareholders of the Company and its subsidiaries or any of their associates. After the transfers, SYT and Mr. Yang Fusheng will cease to be shareholders of the Company.

The transfers of domestic shares are subject to approval by the Ministry of Commerce, whereas the proposed amendment to the Articles was approved at the extraordinary general meeting held on 18 October 2007.

Directors’ and Supervisors’ interests and short positions in shares, underlying shares and debentures

As at 30 September 2007, the interests of the directors and the supervisors of the Company and their respective associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) were as follows:

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

Number of shares held and nature of interests

	Personal (note)	Family	Corporate	Other	Total	Percentage of the issued share capital
<i>Director</i>						
Mr. Xie Kehua	9,000,000	–	–	–	9,000,000	1.48%

Note: All represented domestic shares.

Save as disclosed in this paragraph, as at 30 September 2007, none of the directors and the supervisors of the Company had interest in any securities, underlying shares and debentures of the Company or any of its associated corporations 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) to be notified to the Company and the Stock Exchange pursuant to the requirements of GEM Listing Rules 5.46 to 5.67 of Directors of Listed Companies relating to securities transactions by directors.

Directors' and Supervisors' rights to acquire shares

At no time during the period under review 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 spouses 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 2007, 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 or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO 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	234,000,000 <i>(Note 1)</i>	38.36%
Dai Shi Hua	Beneficial owner	32,180,000 <i>(Note 2)</i>	5.28%

Notes:

1. All represented domestic shares.
2. All represented H shares.

Save as disclosed above, as at 30 September 2007, the directors of the Company 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 or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO 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.

Competing interests

During the nine months ended 30 September 2007, none of the directors, the supervisors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) of the Company competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group required to be disclosed pursuant to the GEM Listing Rules.

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 of the Company 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 the internal controls and risk evaluation. The Audit Committee of the Company comprises three non-executive independent Directors, namely Professor Xian Guoming, Mr. Wu Chen and Mr. Guan Tong.

The Committee has reviewed the third quarter results and the third quarter report of the Group for the nine months ended 30 September 2007.

Share option scheme

During the nine months ended 30 September 2007, none of the directors or supervisors or employees of the Company or other participants of the share option scheme of the Company was granted with options to subscribe for the H shares of the Company.

Management contracts

No contracts concerning the management and administration of all or any substantial part of the business as of the Company were entered into or existed during the period under review.

Purchase, sale or redemption of securities

The Company has not redeemed any of its shares during the period under review. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s shares during the period under review.

Corporate governance practices

The Board and the management of the Company are committed to establishing and maintaining good corporate governance practice code and procedure. The corporate governance principles which the Company complies emphasizes on an efficient board of directors and perfect internal control, as well as the transparency presented to all of the shareholders. For the nine months ended 30 September 2007, the Company has adopted the principles as set out in the Code on Corporate Governance Practices of Appendix 15 to the GEM Listing Rules and has complied all the code provisions and the best practices recommended (if applicable).

By Order of the Board
Wang Shuxin
Chairman

Tianjin, PRC, 8 November 2007

As at the date of this report, the Board of Directors comprises three executive directors, being Mr. Wang Shuxin, Mr. Xie Kehua and Mr. Zhang Songhong; three non-executive directors, being Mr. Feng Enqing, Mr. Liu Zhenyu and Mr. Xie Guangbei; and three independent non-executive directors, being Professor Xian Guoming, Mr. Wu Chen and Mr. Guan Tong.