

2011 3rd Quarterly Report



中国网络教育集团有限公司
CHINA E-LEARNING GROUP LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8055

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of China E-Learning Group 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. 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.

RESULTS

The board (the "Board") of directors ("Directors") of China E-Learning Group Limited (the "Company") is pleased to present the unaudited condensed consolidated financial statement of the Company and its subsidiaries (collectively the "Group") for the nine months and three months ended 30 September 2011, together with the comparative unaudited figures of the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	3	28,494	26,365	2,391	5,186
Cost of sales		(8,008)	(7,257)	(1,684)	(1,353)
Gross profit		20,486	19,108	707	3,833
Other income	4	857	19,075	(148)	95
Fair value gain on financial assets		–	850	–	625
Administrative expenses		(25,192)	(20,475)	(9,722)	(7,145)
(Loss)/Profit from operations		(3,849)	18,558	(9,163)	(2,592)
Finance costs	5	(2,292)	(12,441)	(720)	(2,317)
(Loss)/Profit before tax		(6,141)	6,117	(9,883)	(4,909)
Income tax credit	6	–	–	–	–
(Loss)/Profit for the period		(6,141)	6,117	(9,883)	(4,909)
Attributable to:					
Owners of the Company		(16,797)	(1,774)	(10,461)	(6,938)
Non-controlling interests		10,656	7,891	578	2,029
		(6,141)	6,117	(9,883)	(4,909)
Loss per share attributable to owners of the Company (HK cents)	7				
– Basic		(1.17) cents	(0.20) cents	(0.74) cents	(0.54) cents
– Diluted		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
(Loss)/Profit for the period	(6,141)	6,117	(9,883)	(4,909)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	(3,794)	248	(2,340)	271
Changes in fair value of available-for-sale financial assets	(3,350)	–	(1,600)	–
Total comprehensive (loss)/income for the period	(13,285)	6,365	(13,823)	(4,638)
Attributable to:				
Owners of the Company	(23,941)	(1,526)	(14,401)	(6,667)
Non-controlling interests	10,656	7,891	578	2,029
	(13,285)	6,365	(13,823)	(4,638)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are derived from the provisions of occupational education, industry certification course, skills training and education consultation services.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2011 have been prepared in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards and Interpretations (the "standards") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The basis of preparation and accounting policies applied in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group's annual audited financial statements for the year ended 31 December 2010. The condensed consolidated financial statements are unaudited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

The Group has adopted all of the new and revised standards, amendments and interpretations which are relevant to its operations and effective for the accounting periods beginning on or after 1 January 2010. The adoption of these new and revised standards, amendments and interpretations does not have significant impact on the accounting policies of the Group, and the amounts reported for the current period and prior periods.

The Group has not early adopted the new and revised standards that have been issued but are not yet effective. The directors anticipate that the application of the new and revised standards will have no material impact on the results and financial position of the Group.

3. TURNOVER

Turnover represents revenue of the Group from the provision of distance learning programs and education consultation.

4. OTHER INCOME

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Gain on redemption of convertible notes	707	19,032	(233)	90
Interest income	84	29	84	3
Sundry income	66	14	1	2
	857	19,075	(148)	95

The gain on redemption of convertible notes in the third quarter is adjusted due to re-calculation of the discounted cash flow on each of the previous redemption during the period.

5. FINANCE COSTS

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Interest expenses on convertible notes measured at amortised cost	2,292	12,441	720	2,317

6. INCOME TAX CREDIT

Hong Kong profits tax has not been provided as the Group did not generate any taxable profits in Hong Kong for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Under the Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods. No provision for PRC enterprise income tax has been made as the subsidiary that generated income for the period is a tax-exempted entity in the PRC.

7. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	(Unaudited) Nine months ended 30 September		(Unaudited) Three months ended 30 September	
	2011	2010	2011	2010
Unaudited loss for the period for the purpose of basic and diluted loss per share (HK\$'000)	(16,797)	(1,774)	(10,461)	(6,938)
Number of shares				
Weighted average number of ordinary shares for the purpose of basic loss per share	1,440,413,084	885,042,680	1,405,796,690	1,293,472,946
Weighted average number of ordinary shares for the purpose of diluted loss per share	N/A	N/A	N/A	N/A

No diluted loss per share has been presented for each of the nine months and three months ended 30 September 2011 and 30 September 2010 respectively because the Company's share options and convertible notes outstanding during the nine months and three months ended 30 September 2011 have an anti-dilutive impact.

8. DIVIDEND

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2011. (2010: nil).

9. MOVEMENT OF RESERVES (UNAUDITED)

	Share premium HK\$'000	Share-based payment reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Convertible notes equity reserve HK\$'000	Available-for- sale financial assets valuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As of 1 January 2010	229,144	43,483	4,054	137,964	—	(891,001)	(476,356)
Total comprehensive income/ (loss) for the period	—	—	248	—	—	(1,774)	(1,526)
Issue of shares by conversion of convertible notes	127,358	—	—	(70,270)	—	—	57,088
Issue of bonus shares	(222,662)	—	—	—	—	—	(222,662)
Share issue expenses	(4,481)	—	—	—	—	—	(4,481)
Issue of convertible notes	—	—	—	4,561	—	—	4,561
Redemption of convertible notes	—	—	—	(20,575)	—	—	(20,575)
As of 30 September 2010	129,359	43,483	4,302	51,680	—	(892,775)	(663,951)
As of 1 January 2011	130,354	43,483	6,114	49,688	2,225	(942,899)	(711,035)
Total comprehensive loss for the period	—	—	(3,794)	—	(3,350)	(16,797)	(23,941)
Issue of shares by conversion of convertible notes	5,873	—	—	(18,027)	—	—	(12,154)
Issue of convertible notes	—	—	—	4,489	—	—	4,489
Redemption of convertible notes	—	—	—	(950)	—	—	(950)
As of 30 September 2011	136,227	43,483	2,320	35,200	(1,125)	(959,696)	(743,591)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OVERVIEW

The Group's medical education business continued to grow and contribute to the turnover. It has been increasing as the student population increases through annual intakes, both in spring and in autumn. The current students are progressing through examinations.

For the nine months ended 30 September 2011, the Group incurred an unaudited loss attributable to owners of the company at approximately HK\$23,941,000. The Group has been consistent in implementing the development strategies as formulated earlier, whereby additional resources were raised and reserved for some development plans.

FINANCIAL REVIEW

During the nine months ended 30 September 2011, the Group recorded unaudited turnover of approximately HK\$28,494,000, representing an increase of 8.1% from approximately HK\$26,365,000 in the prior corresponding period in 2010. The increase is attributable to the increasing spring intake whereby revenue is spread over the 10-month course period.

The unaudited gross profit was approximately HK\$20,486,000 for the nine months' period ended 30 September 2011, representing a 7.2% increase from the last corresponding period in 2010, at approximately HK\$19,108,000. The increase is mainly attributable to the increase in turnover.

Other income decreased by approximately HK\$18,218,000 as there was a gain on redemption of convertible notes for the nine months ended 30 September 2010, which was HK\$19,032,000, while there was only HK\$707,000 for the nine months in 2011.

Administrative expenses increased by approximately HK\$4,717,000, from HK\$20,475,000 a year ago to HK\$25,192,000 in the current period, mainly attributable by higher professional and consultancy fees by approximately HK\$1,468,000, and higher training and promotional expenses by approximately HK\$1,832,000.

Finance costs on the convertible notes reduced by 81.6% from HK\$12,441,000 for the nine months ended 30 September 2010 to HK\$2,292,000 for the nine months ended 30 September 2011, mainly because of lower average balance and lower effective interest rates due to shorter duration. The average outstanding amount of convertible notes reduced from HK\$174,530,000 for the nine months ended 30 September 2010 to approximately HK\$99,028,000 for the nine months ended 30 September 2011.

The Group's unaudited net result attributable to the owners of the Company for the current period was a net loss of approximately HK\$23,941,000, compared with the unaudited net loss of approximately HK\$1,526,000 in the last corresponding period, mainly attributable to the decrease in other income by approximately HK\$18,218,000 and the increase in administrative expenses by approximately HK\$4,717,000.

OUTLOOK

The Group is principally engaged in the provision of an Internet platform for the facilitation of education program in Chinese medicine and other advisory and training programs. In order to improve the business model for the Group, we have been exploring into new business opportunities, utilising our computer networking capability. A letter of intent was entered into launching the "Medical Access Card Integrated Operation and Service Platform" in April 2011. As announced, another three letters of intent were separately entered into on 10 June, 1 September and on 12 October in order to connect our business with Internet ticketing platform of cultural performance and sport games events. The Group will issue further announcement in respect of any potential acquisition in accordance with the requirements of the Listing Rules and take prompt actions to make necessary disclosure.

The Board of Directors and the management will, as always, dedicate their best efforts and strive for the best interests of the shareholders of the Group and the Company.

Share capital

As at 1 January 2011, the authorised share capital of the Company was HK\$5,000,000,000 divided into 10,000,000,000 shares of HK\$0.50 each and the issued share capital of the Company was approximately HK\$655,385,000 divided into 1,310,770,439 shares of HK\$0.50 each.

During the period under review, shares were issued upon conversion of convertible notes as follows:

Date of conversion	Principal amount of convertible notes HK\$	Conversion price HK\$	Number of shares issued
14 January 2011	3,750,000	1.01	3,712,871
18 January 2011	3,154,106	1.01	3,122,877
21 April 2011	4,726,441	1.01	4,679,633
29 July 2011	30,000,000	0.50	60,000,000
22 August 2011	30,000,000	0.50	60,000,000
25 August 2011	19,500,000	0.50	39,000,000
	91,130,547		170,515,381

As at 30 September 2011, the authorised share capital of the Company was HK\$5,000,000,000 divided into 10,000,000,000 shares of HK\$0.50 each and the issued share capital of the Company was approximately HK\$740,643,000 divided into 1,481,285,820 shares of HK\$0.50 each.

Convertible Notes

Convertible Notes 2008

The contractual obligation on these convertible notes extinguished on maturity on 28 February 2011, and was settled by issuing two tranches of new convertible notes. Please refer to Convertible Notes 2011 A and Convertible Notes 2011 B.

Convertible Notes 2009

Pursuant to the acquisition of 100% interest in IIN Medical (BVI) Group, the Company issued convertible notes ("Convertible Notes 2009") as partial settlement of the acquisition consideration on 23 April 2009. The aggregate principal of the Convertible Notes 2009 amounted to HK\$32,770,000. The Convertible Notes 2009 are interest free, with a principal amount of approximately HK\$20,150,000 maturing in 48 months from the date of issue and the remaining principal amount of approximately HK\$12,620,000 maturing in 24 months from the date of issue and convertible into ordinary shares at conversion price of HK\$1.01 (2010: HK\$1.57) per share, subject to adjustments.

On 15 July 2010, an aggregate principal of the Convertible Notes 2009 amounted to HK\$6,780,000 were issued as the final payment for the acquisition of the entire issued share capital of IIN Medical (BVI) Group. The Convertible Notes 2009 are interest free, with a principle amount of HK\$4,154,106 maturing in 48 months from the date of issue and the remaining principal amount of HK\$2,625,894 maturing in 24 months from the date of issue and convertible into ordinary shares at conversion price of HK\$1.01 per share, subject to adjustments.

As at 1 January 2011, the aggregate outstanding principal amount of the Convertible Notes was HK\$25,620,217 (2010: HK\$32,770,000). The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2009 would result in the issue and allotment of 25,366,551 new shares in the Company.

In addition to the conversion of the Convertible Notes 2009 as shown above, Convertible Note 2009 in the principal amount of HK\$3,827,515 were redeemed during the period under review. As at 30 September 2011, the aggregate outstanding principal amount of the Convertible Notes 2009 was approximately HK\$10,162,000. The exercise in full of conversion rights vested with the Company's outstanding Convertible Notes 2009 would result in the issue and allotment of 10,061,540 new shares of the Company.

Convertible Notes 2011

The Group had reached several agreements with the holders of the Convertible Notes 2008 which became mature on 28 February 2011, and a promissory note for approximately HK\$50 million for a settlement. In order to be able to raise sufficient fund for the settlement, the Group issued two tranches of convertible notes ("Convertible Notes 2011 A") on 9 May 2011 and ("Convertible Notes 2011 B") on 11 May 2011.

The aggregate principal of Convertible Notes 2011 A amounted to HK\$89,999,934, bearing an interest of 1% per annum, maturing in 36 months from the date of issue, and convertible into ordinary shares at conversion price of HK\$0.50 per share, subject to adjustments.

The aggregate principal of Convertible Notes 2011 B amounted to HK\$36,200,000, bearing an interest of 1% per annum, maturing in 6 months from the date of issue, and convertible into ordinary shares at conversion price of HK\$0.50 per share, subject to adjustments.

As at 30 September 2011, the aggregate outstanding principal amount of the Convertible Notes 2011 A and Convertible Notes 2011 B were HK\$66,199,934. The exercise in full of the vested conversion rights would result in the issue and allotment of 132,399,868 new shares of the Company.

On 21 July 2011, the Group entered into a subscription agreement with a group of independent subscribers for the issuance of some convertible notes in the aggregate principal amount of HK\$42,000,000, bearing an interest rate of 3% per annum, maturing in 12 months from the date of issue, and convertible into ordinary shares at conversion price of HK\$0.50 per share, subject to adjustments. Subsequently, the Group issued two tranches of convertible notes ("Convertible Notes 2011 C") on 25 August 2011 for the principal amount of HK\$19,500,000 and ("Convertible Notes 2011 D") on 14 September 2011 for the principal amount of HK\$22,500,000.

As at 30 September 2011, the aggregate outstanding principal amount of the Convertible Notes 2011 C and Convertible Notes 2011 D were HK\$22,500,000. The exercise in full of the vested conversion rights would result in the issue and allotment of 45,000,000 new shares of the Company.

Foreign exchange exposure

Most of the Group's assets, liabilities and transactions were denominated in Hong Kong dollars and Renminbi. Although the exchange rate between Hong Kong dollars and Renminbi has been moderately changing, it remains relatively stable. As the expenditure in PRC was covered by the sales in PRC, the management considers that the Group has no significant foreign exchange exposures, apart from the exchange difference arises on translation of foreign operations. Foreign exchange risk arising from the normal course of operations is considered as minimal. As at 30 September 2011, the Group has no foreign currency borrowings and has not used any financial instrument for hedging the foreign exchange risk.

Significant investments

During the nine months ended 30 September 2011, no significant investments were made by the Group.

Charges on the Group's assets

There were no material charges on the Group's assets as at 30 September 2011.

FUTURE PLAN FOR MATERIAL INVESTMENTS

On 13 June 2011, the Group announced that, on 10 June 2011, a letter of intent was signed between Beijing Hua Tuo Education Technology Company Limited, a wholly owned subsidiary of the Company, and Mr. Yang Bo, Mr. Wang Ren and Ms. Yuan Qun (the "Counterparty"), in relation to the proposed acquisition of part of the revenue sharing right in Beijing Everjoy Cultural Communication Co. Ltd. (北京春秋永樂文化傳播有限公司) held by the Counterparty, to promote the development of businesses of both parties.

On 1 September 2011, the Group announced that, on 1 September 2011, the Company signed a letter of intent with a Mr. Lee in relation to the acquisition of the entire issued share capital of Everjoy International Media Corporation (永樂國際傳媒有限公司).

On 13 October 2011, the Group announced that, on 12 October 2011, the Company signed a letter of intent with a Ms. Hong in relation to the acquisition of the entire issued share capital of Everjoy Technology Development Corporation (永樂科技發展有限公司).

The Group will issue further announcement in respect of the possible acquisition in accordance with the requirements of the Listing Rules and take prompt actions to make necessary disclosure and obtain approval as required under the Listing Rules should the formal agreement be signed between the parties.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2011, the interests and short positions of the Directors or chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares or underlying shares of the Company

Name of Directors	Capacity	Number of shares or underlying shares held			Percentage of issued share capital
		Ordinary shares	Share options	Total	
Chen Hong (Director)	Beneficial owner	79,510,480	6,377,306	85,887,786	5.80%
Wang Hui (Chief Executive)	Beneficial owner	—	6,377,306	6,377,306	0.43%
Wei Jianya (Director)	Beneficial owner	—	2,349,534	2,349,534	0.16%

Save as disclosed above, as at 30 September 2011, none of the other Directors or chief executive of the Company had any interest or short position in shares, debentures or underlying shares of the Company and its associated corporations which was required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) pursuant to Section 352 of the SFO, to be recorded in the register referred therein; or (c) pursuant to Rule 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

INTERESTS DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 September 2011, so far as known to any Director or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of 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 shares or underlying shares of the Company

Name of Shareholder	Capacity	Number of shares or underlying shares held	Percentage of issued share capital
Yang Dong Jun	Beneficial owner	207,554,896	14.01%
Atlantis Capital Holdings Limited	Investment manager	86,058,000	5.81%
Liu Yang (note)	Interest of a controlled corporation	86,058,000	5.81%

Note: According to the disclosure of interests notice filed, Ms. Liu Yang is deemed to be in control of Atlantis Capital Holdings Limited and therefore deemed to be interested in the 86,058,000 shares of the Company.

Save as disclosed above, as at 30 September 2011, the Directors were not aware of any other persons (other than the Directors and chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed under the provisions of 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.

CORPORATE GOVERNANCE

During the period under review, the Company has complied with all the Code on Corporate Governance Practices as set out in appendix 15 in the GEM Listing Rules.

DIRECTORS' INTEREST IN COMPETING BUSINESS

During the period under review, none of the Directors, nor the substantial shareholders of the Company and their respective associates had any interest in any business that directly or indirectly competed with the business of the Group.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 30 September 2011.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also made specific enquiry with all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the period under review.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference for the purpose of reviewing and supervising the Company's financial reporting and internal control procedures. As at 30 September 2011, the committee comprised three independent non-executive Directors, namely Mr. Cheung Wai Tak (Chairman of the Committee), Dr. Huang Chung Hsing and Mr. Wu Tao.

The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the nine months ended 30 September 2011, and recommended the Board to adopt the third quarterly report for 2011.

By order of the Board
China E-Learning Group Limited
Chen Hong
Chairman

Hong Kong, 14 November 2011

As at the date of this report, the Board comprises two executive Directors, namely Mr. Chen Hong (Chairman) and Ms. Wei Jianya; three independent non-executive Directors, namely Dr. Huang Chung Hsing, Mr. Cheung Wai Tak and Mr. Wu Tao.