

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)



THIRD QUARTERLY REPORT 2005

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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 increased by 373% when compared with that of recorded in the corresponding period last year to approximately RMB148,045,000 for the nine months ended 30 September 2005.
- Gross profit increased by 65.8% from that of recorded in the corresponding period of last year to approximately RMB25,868,000.
- Gross profit margin decreased from 49.8% of the corresponding period last year to 17.5% of that of this year. This is due to lower gross profit margin derived from the sale of eco-agricultural products by Shandong TEDA.
- The Group recorded an operating gain of approximately RMB137,000 for the three months ended 30 September 2005. This is a consecutive quarter that recorded an operating gain since the second quarter of 2005.
- Net profit attributable to Shareholders for the three months ended 30 September 2005 was approximately RMB170,000 after taking into account of the profit derived from the sale of equity interests of Tianjin Yisheng to an independent third party of approximately RMB610,000.
- Net loss attributable to Shareholders for the nine months ended 30 September 2005 were approximately RMB5,050,000, representing a decrease of 64.9% from the corresponding period of 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 2005, together with the comparative figures of the corresponding period in 2004 as follows:

	<i>Notes</i>	<b>For the three months ended 30 September</b>		<b>For the nine months ended 30 September</b>	
		<b>2005</b> <i>RMB</i> <i>(Unaudited)</i>	<b>2004</b> <i>RMB</i> <i>(Unaudited)</i>	<b>2005</b> <i>RMB</i> <i>(Unaudited)</i>	<b>2004</b> <i>RMB</i> <i>(Unaudited)</i>
Turnover	2	67,858,658	11,953,184	148,045,028	31,320,451
Less: sales tax		(18,384)	(77,740)	(89,616)	(111,906)
Cost of sales		<u>(57,843,070)</u>	<u>(5,192,179)</u>	<u>(122,087,482)</u>	<u>(15,608,809)</u>
Gross profit		9,997,204	6,683,265	25,867,930	15,599,736
Selling and distribution costs		(6,047,928)	(3,946,781)	(17,102,898)	(12,929,557)
R&D and administrative expenses		<u>(3,812,607)</u>	<u>(4,487,748)</u>	<u>(11,423,697)</u>	<u>(19,452,626)</u>
Operating profit/(loss)		136,669	(1,751,264)	(2,658,665)	(16,782,447)
Other income less other expenses		540,621	81,957	128,904	1,329,470
Amortization on goodwill		151,710	(61,197)	–	(1,477,616)
Finance expense		<u>(1,050,179)</u>	<u>(745,865)</u>	<u>(2,970,995)</u>	<u>(2,163,096)</u>
Profit/(loss) before tax		(221,179)	(2,476,369)	(5,500,756)	(19,093,689)
Taxation	3	<u>(76,905)</u>	<u>(25,155)</u>	<u>(161,612)</u>	<u>(34,412)</u>
Profit/(loss) after tax		(298,084)	(2,501,524)	(5,662,368)	(19,128,101)
Minority interests		<u>468,543</u>	<u>8,538</u>	<u>612,773</u>	<u>4,725,058</u>
Net profit/(loss) attributable to the shareholders		<u>170,459</u>	<u>(2,492,986)</u>	<u>(5,049,595)</u>	<u>(14,403,043)</u>
Profit/(loss) per share					
– Basic	4	<u>0.028 cents</u>	<u>(0.623) cents</u>	<u>(1.037) cents</u>	<u>(3.601) cents</u>

Notes:

## 1. Basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with the accounting standards issued by the Hong Kong Institute of Certified Public Accountants. These financial statements have been prepared under the historical cost convention.

The principal accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

The Group also adopted new Hong Kong Financial Reporting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005 and the adoption of such new HKFRS has had no material effect on the financial results for the prior accounting periods. Accordingly, no prior period adjustment has been made. However, according to HKFRS 3, previously recognised goodwill is prohibited from amortization and instead, annual impairment test should be adopted from the beginning of the first annual period beginning on or after 1 January 2005. Therefore, no goodwill was amortized with effect from 1 January 2005.

## 2. Turnover

The Group's turnover is derived principally from the sales of diabetic health products, other medical and health products and eco-agricultural 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	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Turnover:				
Diabetic health products	10,145,257	8,589,958	24,837,443	22,196,031
Other medical and health products	4,063,578	3,363,226	14,140,054	9,124,420
Fertilizer products	53,649,823	–	109,067,531	–
	<u>67,858,658</u>	<u>11,953,184</u>	<u>148,045,028</u>	<u>31,320,451</u>

## 3. Taxation

- (a) In 2003, the Company changed its tax status to a listed Foreign Investment Enterprise ("FIE"). In accordance with the relevant tax rules and regulations applicable to FIE in the People's Republic of China ("PRC"), the Company, as a production FIE located in Tianjin Economic Technological Development Area ("TEDA"), shall be eligible for state enterprise income tax ("EIT") at a reduced rate of 15%.

For the period ended 30 September 2005, there was no assessable profit to EIT generated by the Group except in respect of the profit generated by Tianjin Alpha HealthCare Products Co., Ltd. (“Alpha”). Alpha, being a Sino-foreign joint-venture enterprise located in TEDA, is 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, Alpha is also entitled to exemption from 3% local EIT during its actual operational period in TEDA. The state EIT exemption period of Alpha ended in 2003 and the state EIT 50% reduction period of Alpha started on 1 January 2004 until 31 December 2006.

Beijing TEDAX<sup>2</sup> Medical Engineering Company Limited (“TEDAX<sup>2</sup>”) and Beijing Xinxing Bio-medical Engineering Research and Development Institute (“Beijing Xinxing”), being limited liability companies incorporated in the PRC, are subject to 30% state EIT and 3% local EIT. However, according to the relevant tax regulations, new and high technology enterprises operating in Beijing New and High Technology Development Provisional Zone (“BNHTDPZ”) are entitled to a reduced EIT rate of 15%. TEDAX<sup>2</sup> and Beijing Xinxing are recognized as new and high technology enterprises and are registered in the BNHTDPZ. Accordingly, TEDAX<sup>2</sup> and Beijing Xinxing are subject to state EIT at a reduced rate of 15%. Moreover, new and high technology enterprises registered in the BNHTDPZ shall be entitled to exemption from EIT for three years, followed by a 50% reduction of state EIT for next two years. Accordingly, TEDAX<sup>2</sup> was entitled to 50% reduction of state EIT during the period under review.

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

Shandong TEDA Bioengineering Co., Ltd. (“Shandong TEDA”), being a non-production FIE incorporated in the PRC, is subject to the 30% state EIT and 3% local EIT.

(b) *Income Tax expense*

	<b>For the nine months ended 30 September</b>	
	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current Tax		
Hong Kong	Nil	Nil
PRC	162	34

The income tax charge in Hong Kong is Nil for the period ended 30 September 2005 (September 2004: Nil) as the Company did not carry on any business in Hong Kong during the period. The income tax charge in the PRC is RMB161,612 for the period ended 30 September 2005 (September 2004: RMB34,412).

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

	<b>For the nine months ended</b>	
	<b>30 September</b>	<b>30 September</b>
	<b>2005</b>	<b>2004</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before tax	(5,501)	(19,094)
Calculated at a taxation rate of 33% (2004: 33%)	(1,815)	(5,870)
Effect of tax holiday exemption	–	–
Tax rate differential	1,255	2,715
Effect of the tax losses on consolidation	722	2,882
Tax effect of expenses that are not deductible in determining taxable profit	–	307
	<hr/>	<hr/>
Tax expenses for the period	<b>162</b>	<b>34</b>
	<hr/> <hr/>	<hr/> <hr/>

#### **4. Loss per share**

The calculation of the basic loss per share for the nine months ended 30 September 2005 was based on the unaudited loss attributable to shareholders for the period in the sum of RMB5,049,595 (2004: RMB14,403,043) divided by the weighted average number of shares issued during the period of 486,923,077 shares (2004: 400,000,000 shares).

The calculation of the basic profit per share for the three months ended 30 September 2005 was based on the unaudited profit attributable to shareholders of the Company (the “Shareholders”) for the period in the sum of RMB170,459 (2004: loss of RMB2,492,986) divided by the weighted average number of shares issued during the period of 610,000,000 shares (2004: 400,000,000 shares).

Diluted profit/(loss) per share is not presented as there is no dilutive potential shares (2004: no diluted profit/(loss) per share).

#### **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2005 (2004: Nil).

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

	Share Capital RMB	Accumulated losses RMB	Share premium RMB	Capital reserve RMB	Total RMB
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 the 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 the 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)	<u>40,000,000</u>	<u>(72,887,123)</u>	<u>62,031,951</u>	<u>2,541,404</u>	<u>31,686,232</u>
Balance as at 1 January 2005 (Audited)	40,000,000	(74,030,217)	62,031,951	2,541,404	30,543,138
Net loss attributable to shareholders for the three months ended 31 March 2005	–	(3,963,018)	–	–	(3,963,018)
Balance as at 31 March 2005 (Unaudited)	40,000,000	(77,993,235)	62,031,951	2,541,404	26,580,120
Placing of new H Shares	21,000,000	–	13,057,620	–	34,057,620
Net loss attributable to shareholders for the three months ended 30 June 2005	–	(1,257,036)	–	–	(1,257,036)
Balance as at 30 June 2005 (Unaudited)	61,000,000	(79,250,271)	75,089,571	2,541,404	59,380,704
Net profit attributable to the shareholders for the three months ended 30 September 2005	–	170,459	–	–	170,459
Balance as at 30 September 2005 (Unaudited)	<u>61,000,000</u>	<u>(79,079,812)</u>	<u>75,089,571</u>	<u>2,541,404</u>	<u>59,551,163</u>



## MANAGEMENT DISCUSSION & ANALYSIS

### Business Review

The Group is principally engaged in the research and development and commercialization of medical and health products including biomedical equipment, biomaterials, natural pharmaceutical, diabetic health products and eco-agricultural products.

For the nine months ended 30 September 2005, sales turnover of the Group amounted to approximately RMB148,045,000, representing an increase of 373% from that of recorded in the corresponding period of last year. The great increase was due to the sale of compound fertilizers by Shandong TEDA after becoming the authorized sole distributor of the compound fertilizers under the brand name of "FULILONG" since 1 April 2005. However the overall gross profit margin of the Group of 17.5% is much lower than 49.8% of the corresponding period of last year. This was mainly due to the low gross profit margin of the fertilizer products of an average of approximately 5.4%.

For the nine months ended 30 September 2005, total gross profit surged to approximately RMB25,868,000, representing an increase of 65.8% from the corresponding period of last year. Consequently, the Group recorded an operating gain of approximately RMB137,000 for the three months ended 30 September 2005. This is a consecutive quarter that recorded an operating gain starting from the second quarter of 2005.

Owing to the profit derived from the sale of equity interests of Tianjin Yisheng to an independent third party of approximately RMB610,000, profit attributable to Shareholders arrived at approximately RMB170,000 for the three months ended 30 September 2005. This is also the first time that profit attributable to Shareholders was recorded in the quarterly results of the Group since the Company listed in GEM Board in 2002.

The sale of i) diabetic health products and ii) other medical and health products contributed to approximately 16.8% and 9.6% respectively to the Group's total turnover for the nine months ended 30 September 2005. The sale of iii) compound fertilizers contributed to the remaining 73.6% of the Group's total turnover for the period.

## **Fertilizer products**

The PRC is currently the largest producer and consumer of chemical fertilizers. The consumption of compound fertilizers represents 22% to 25% of the total consumption of chemical fertilizers of the PRC and, compared with an average global level of 30%, is far below the 50% to 80% level of that of developed countries. Since 1 April 2005, Shandong TEDA has become the authorized sole distributor of the compound fertilizers under the brand name of “FULILONG”, the manufacturer of which owned manufacturing capacity in Shaanxi province and Guangdong province of the PRC up to a maximum level of 400,000 tonnes per annum.

For the six months and the nine months ended 30 September 2005, Shandong TEDA recorded a total sale of approximately RMB105,328,000 and RMB109,068,000 respectively of compound fertilizers to various customers throughout the PRC (2004: Nil). The gross profit derived from the sale of compound fertilizers within the nine months ended 30 September 2005 arrived at approximately RMB5,910,000 (2004: Nil), which represents approximately 5.42% of the total sales of compound fertilizers in the period concerned. The Group expects that the demand of compound fertilizers in the PRC market will continue to rise.

## **Medical equipment and biomaterials**

The Group continued to launch medical equipment under “TEDA” brand name in the PRC. TEDAX<sup>2</sup>, which is engaged in the manufacture and sale of medical equipment, brought to a total turnover of RMB4,774,000 (2004: RMB4,690,000) to the Group for the nine months ended 30 September 2005. Due to the effort of the sales team of TEDAX<sup>2</sup>, the gross profit margin derived from the sale of medical equipment maintained at 57.8% for the period ended 30 September 2005 although the competition in the PRC market is fierce.

On the other hand, Wan Tai continued to sell intraocular lens through its network established in the PRC. The reputation of TEDA’s intraocular lens has been gradually built up throughout the PRC and has occupied a leading percentage in the market share of locally made intraocular lens selling in Yunnan province in the PRC.

## **Diabetic health products**

For the nine months ended 30 September 2005, the turnover through the sale of diabetic health products under the brand name of “ALPHA” reached approximately RMB24,837,000, representing an increase of 11.9% from that of the corresponding period of 2004. The growth in turnover is mainly attributable to the steady demand of Alpha products due to the successful establishment of “ALPHA” as one of the prestigious brands for diabetic health foods as well as the encouraging acceptance of Alpha’s sugar-free health food by the general public in the PRC.

During the three months ended 30 September 2005, there was the strong demand for “ALPHA” sugar-free mooncakes same as last year. With more and more people becoming aware of the importance of health, the growth of the sale of sugar-free health food is expected to increase in future.

### **Sales and marketing**

For the nine months ended 30 September 2005, the Group’s sales and marketing expenses amounted to approximately RMB17,103,000, which is approximately 32.27% higher than that recorded in the corresponding period of last year (2004: RMB12,930,000). The sales and marketing expenses for fungi health products which were sold by Tianjin Yisheng accounted for approximately RMB4,053,000 during the period concerned. As disclosed in the announcement dated 15 September 2005, the Company sold its entire equity interests in Tianjin Yisheng to an independent third party. As a result, the future sales and marketing expenses of the Group will be reduced in the last quarter of 2005 and in next year.

### **Research and development (“R&D”) and administration**

For the nine months ended 30 September 2005, the Group’s R&D and administration expenses amounted to approximately RMB11,424,000, which was decreased by approximately 31.4% from that recorded in the corresponding period of last year (2004: RMB16,653,000) after ignoring the effect of the written off of proprietary technologies of approximately RMB2,800,000 in 2004. The Group continued to adopt its tight control policy for the purpose of cost reduction in order to increase its production efficiency and cost effectiveness.

### **Charges on the Group’s assets and contingent liabilities**

As at 30 September 2005, there was no restricted deposit which was pledged as security for granting of loans by a PRC bank to the Company (2004: pledging of fixed deposits of HK\$23.5 million).

The Company had contingent liabilities of RMB3.25 million in connection with the provision of guarantee as security for bank loans granted to its subsidiaries.

### **Major acquisition and disposal**

On 15 September 2005, the Company entered into an equity transfer agreement, pursuant to which the Company agreed to dispose of 70% of the equity interests in Tianjin Yisheng to Mr. Lei Yu Hua, an independent third party, at a cash consideration of RMB3.5 million. Based on the net proceeds of RMB3.5 million and the unaudited net assets of approximately RMB2,888,000, representing for 70% of the equity interests of Tianjin Yisheng as at 31 August 2005, a gain of approximately RMB610,000 was recorded.

The above disposal constituted a discloseable transaction to the Company pursuant to the GEM Listing Rules and therefore a circular containing details of the transaction was dispatched to the shareholders of the Company on 30 September 2005 in accordance with the requirement of the GEM Listing Rules.

### **Future prospect**

On 3 October 2005, the Company has entered into a Subscription Agreement pursuant to which the Company conditionally agreed to subscribe for 51% interest in the registered capital of Guangdong Fulilong Compound Fertilizers Company Limited (“Fulilong”) by way of cash injection. Please refer to the section headed “Very substantial acquisition” of this report for more details. The Directors believe that the subscription of Fulilong’s capital provides the Group with a chance to capture the business opportunity of the fertilizer markets of the PRC by having an interest in a well established fertilizer manufacturer.

It is expected that the sale of fertilizer products will be improved since PRC central government continues to encourage the farmers to increase their income by investing in new technology and using effective fertilizer products. The Chinese Phosphorus Compound Fertilizers Association forecasted in November 2004 that the consumption of compound fertilizers in the PRC will be doubled in the next 10 years, gradually reaching the level of semi-developed countries. As a result, the demand of compound fertilizers in the PRC market continues to increase. It is the Group’s plan to increase its investment in the industry of compound fertilizers.

## DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

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

As of 30 September 2005, the interests of the directors and the supervisors of the Company and their respective associates in the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were as follows:

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

	Number of shares held and nature of interests					Total	Percentage of the issued share capital
	Personal (Note)	Family	Corporate	Other			
<b>Directors</b>							
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 2005, none of the directors and the supervisors of the Company had interest in any securities and 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) otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

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 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 2005, 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 2005, 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 2005, 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 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.

## **VERY SUBSTANTIAL ACQUISITION**

As announced by the Company on 3 October 2005, the Company, Guangdong Fulilong Compound Fertilizers Limited (“Fulilong”) and the existing shareholders of Fulilong entered into a subscription agreement on 3 October 2005. Under the subscription agreement, the Company conditionally agreed to subscribe for the subscription capital in Fulilong by way of cash injection. Upon the completion, the Company’s interest in Fulilong will represent a 51% interest in the registered capital of Fulilong as enlarged by the subscription. Accordingly, Fulilong will become a subsidiary of the Company and the financial results of Fulilong will be consolidated in the accounts of the Company so long as Fulilong remains as a subsidiary of the Company.

The consideration for the subscription capital is RMB32.5 million arrived at after arm’s length negotiation among the parties to the subscription agreement having taken into account the audited net asset value of Fulilong of approximately RMB30.9 million as at 30 June 2005 prepared in accordance with generally accepted accounting principles in the PRC and the intention of the Company to obtain a 51% interest in Fulilong. It is expected that the Consideration shall be payable upon completion of the subscription agreement.

The directors of the Company are of the view that the subscription is in line with the expansion plan as set out in the interim report of 2005 and annual report of 2004 of the Company and is for the best interests of the Company and the shareholders.

## **AUDIT COMMITTEE**

An audit committee of the Company was set up (the “Committee”) with written terms of reference in compliance with “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants.

The primary duties of the Committee are to review and monitor the Company’s financial reporting process and internal control systems. As at the date of this report, the Committee comprises three independent non-executive directors, namely Professor Xian Guoming, Mr. Chan Yip Kai Philip, and Mr. Guan Tong. Three Committee meetings were held during the nine months ended 30 September 2005.

## **SHARE OPTION SCHEME**

During the nine months ended 30 September 2005, 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 2005, 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 2005, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares.

By Order of the Board  
**Wang Shu Xin**  
*Chairman*

Tianjin, PRC, 11 November 2005

*As at the date of this report, the Board comprises three executive directors, being Wang Shuxin, Xie Kehua, Zheng Dan, three non-executive directors, being Feng Enqing, Liu Zhenyu, Xie Guangbei and three independent non-executive directors, being Xian Guoming, Chan Yip Kai Philip and Guan Tong.*