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)

ANNUAL REPORT 2005

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BACKGROUND

Tianjin TEDA Biomedical Engineering Company Limited ("TEDA Biomedical" or the "Company" and together with its subsidiaries, collectively the "Group") is principally engaged in the research and development and commercialization of medical and diabetic health products and fertilizer products.

Medical and diabetic health products

A diversified product range including medical equipment such as medical monitoring systems and biomaterials intraocular lens and diabetic health products including specifically designed sugar reducing health foods developed in various forms such as noodles, flour, biscuits, etc.

Eco-agricultural products

Products include compound and biological fertilizers under the brand of "Fulilong".

Tianjin TEDA Biomedical Engineering Company Limited

(principally engaged in investment holding and the research and development and commercilization of medical and diabetic health products and fertilizer products)

100%

Beijing TEDAX[2] Medical Engineering Company Limited ("TEDAX[2]")

(principally engaged in investment holding and holder of proprietary technologies)

100%

Tianjin Wan Tai Bio-Development Company Limited ("Wantai")

(principally engaged in trading in biomedical equipment and biomaterials)

75%

Tianjin Alpha HealthCare Products Co., Ltd. ("Alpha")

(principally engaged in the manufacture and distribution of diabetic health food and related products)

51%

Shandong TEDA Bioengineering Co. Ltd. ("STEDA")

(principally engaged in the research & development, production and sale of biological fertilizer, combined fertilizer, mixed fertilizer and plant fertilizer including the application of related techmology)

51%

Guangdong Fulilong Compound Fertilizers Co., Ltd.* ("Fulilong")

(principally engaged in the manufacture and sale of compound fertilizers)

* A new subsidiary acquired on 30 December 2005

CORPORATE INFORMATION

Executive Directors
Mr. Wang Shuxin
Mr. Xie Kehua
Ms. Zheng Dan

Non-executive Directors
Mr. Feng Enqing
Mr. Liu Zhenyu
Mr. Xie Guangbei

Independent non-executive Directors
Professor Xian Guoming
Mr. Chan Yip Kai Philip
Mr. Guan Tong

Supervisors
Mr. Hao Zhihui
Mr. Yuan Wei

Independent Supervisors
Mr. Chang Zheng
Mr. Zhu Gang

Company Secretary
Mr. Ng Ka Kuen Raymond, CPA, FCIS

Qualified Accountant
Mr. Ng Ka Kuen Raymond, CPA, FCIS

Compliance Officer
Ms. Zheng Dan

Audit Committee
Professor Xian Guoming
Professor Xiao Zhuoji (resigned on 22 September 2005)
Ms. Zhao Xiuying (resigned on 22 September 2005)
Mr. Chan Yip Kai Philip (appointed on 22 September 2005)
Mr. Guan Tong (appointed on 22 September 2005)

Authorized Representatives
Mr. Wang Shuxin
Ms. Zheng Dan

Registered Office
No. 12 Tai Hua Road
The 5th Avenue
TEDA
Tianjin, PRC

Auditors
PricewaterhouseCoopers
(resigned on 30 November 2005)
Horwath Hong Kong CPA Limited
(appointed on 30 November 2005)

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9th Floor, Block A2
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TEDA
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Hong Kong Share Registrar and Transfer Office
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Wanchai, Hong Kong

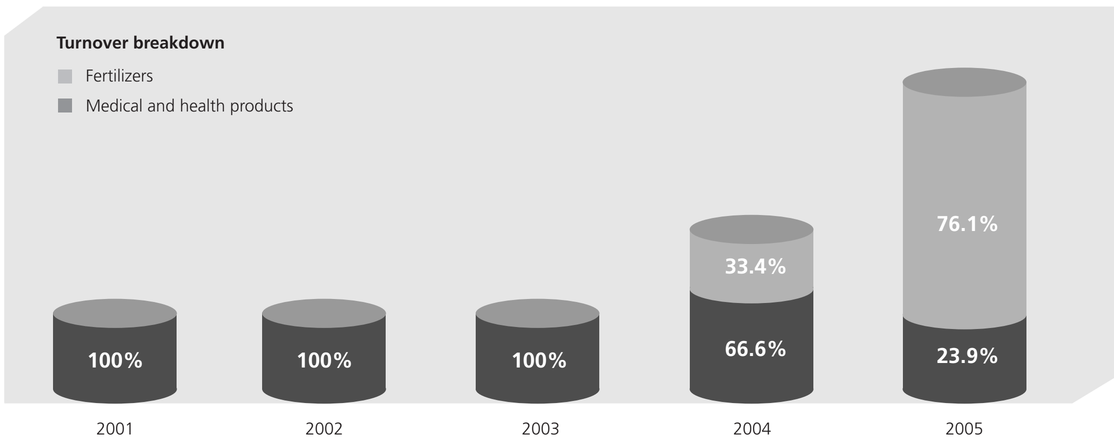
Company Website
www.bioteda.com

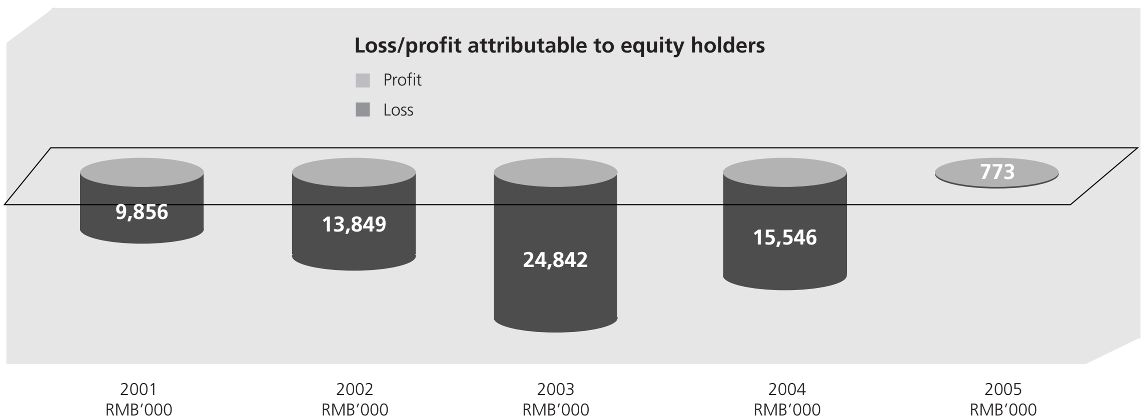
Stock Code
8189

FINANCIAL HIGHLIGHTS

Results	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000	**2005** **RMB'000**
	For the year ended 31 December				
Turnover	25,526	30,431	47,305	58,646	205,032
Gross profit	12,131	14,785	22,413	20,961	31,331
Gross margin	47.5%	48.60%	47.40%	35.70%	15.28%
(Loss)/profit attributable to shareholders	(9,856)	(13,849)	(24,842)	(15,546)	773
(Loss)/profit per share	(3.29) cents	(3.96) cents	(6.21) cents	(3.89) cents	0.15 cents

Assets & Liabilities	2001 RMB'000	2002 RMB'000	2003 RMB'000	2004 RMB'000	**2005** **RMB'000**
	31 December				
Total assets	43,512	117,051	107,999	123,656	208,266
Total liabilities	30,224	46,120	55,948	90,352	110,393
Shareholders' equity	13,288	70,931	46,089	30,543	65,374





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Tianjin TEDA Biomedical Engineering Company Limited (the "Company" or "TEDA Biomedical"), I am pleased to present this annual report of TEDA Biomedical for the year ended 31 December 2005.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the research and development and commercialization of medical and health products and fertilizer products. The Group is a high technology venture focusing on research and development. A high technology venture is characterized by high growth rate and high penetration rate. During the year ended 31 December 2005, the Group's core technologies have further penetrated into health products, medical and biological compound fertilizer sectors, and experienced rapid growth in the fertilizer industry. The path for the Group's principal business is becoming clearer and clearer.

Rapid growth in turnover and achieved turnaround. In 2005, the Group put more emphasis on sale and marketing on its foundation established in the past two years, which focused on research and development. In addition to the construction of production facilities, its subsidiary, namely Shandong TEDA Bio-engineering Co., Ltd. ("Shandong TEDA"), also distributed all fertilizer products of Guangdong Fulilong Compound Fertilizers Company Limited ("Fulilong") in the PRC as from 1 April 2005. Turnover for the nine months ended 31 December 2005 reached RMB148,000,000, generating a turnover of RMB205,000,000 for the Group for the year 2005, a 250% growth compared with that recorded last year. For the medical and health products, cost of sales and operating expenses were kept at low level in order to ensure sales growth. The Group successfully achieved turnaround in 2005.

Placing of shares and acquisition of compound fertilizer project. In June 2005, the Company raised approximately HK$36.25 million by placing 210 million new H shares to investors. The proceed was mainly used to acquire 51% equity interests in Fulilong. The acquisition was completed in December 2005, consolidating the foundation for the Group's development. Fulilong is a high technology venture in the Guangdong Province. Its quality control management system was granted ISO9001 certificate in July 2003. The brands of "Fulilong" and "Lvzhou" ("綠洲") under Fulilong were granted exemption from quality inspection by the National Technology Supervision Bureau in December 2005. Fulilong and Shandong TEDA will share the majority of the operating income of the Group.

Rational allocation of production bases. As at December 2005, the Group has completed the allocation of its production base in the PRC. Fulilong, located in Dongguan of Guangdong Province, has 5 production lines with an annual production capacity of 400,000 tonnes of compound fertilizers. Shaanxi Xing Fu Fertilizer Company Limited, an associated company of Fulilong located in Shaanxi Province, produces high condensed nitryl compound fertilizers adopting the advanced technology known as "Melt Spraying Granulation Method with High Tower" (高塔溶體旋轉造粒法), and has an annual production capacity reaching 400,000 tonnes. Production lines for two other new production bases, namely Shandong TEDA and Guizhou Guihua project (貴州貴化項目), are currently under construction, and are expected to commence trial production in the second half of 2006.

At present, compound fertilizers account for approximately 25% of the total consumption of chemical fertilizers in the PRC, behind a global average level of 30%, and far below that of developed countries of 50% to 80%. In the coming decade, the total consumption of compound fertilizers in the PRC will refresh to approach the level of medium-class developed countries, and accordingly, there is huge growth potential for compound fertilizers in the PRC.

The Group will further extend its scale of operation in 2006. In order to enhance the standard of management and effectiveness, we improved our corporate governance structure, with the Chairman no longer serving as the Chief Executive Officer. Moreover, Remuneration Committee and Audit Committee have also been established and have commenced work in compliance with the "Code on Corporate Governance Practices" under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Under the ongoing stable agricultural policies of the PRC, the Group commercialized its technologies accumulated over the years to provide quality fertilizers to the agricultural industry, while the medical and health product business is set for stable development. In light of our clear development strategies, we believe that the Group will achieve significant improvement in 2006 and generate satisfactory return for our shareholders.

On behalf of the Board, I would like to express my sincere gratitude to all business partners, customers and shareholders of TEDA Biomedical for their support, and thank all our staff for their loyal dedications. We look forward to welcoming a prosperous future ahead.

Wang Shuxin
Chairman

15 March 2006

Business Review

During the year ended 31 December 2005, Tianjin TEDA Biomedical Engineering Company Limited ("TEDA Biomedical" or the "Company", together with its subsidiaries, the "Group") was principally engaged in biological fertilizer products such as biological organic compound fertilizer products and nitro-compound fertilizer products under the brandname of "Fulilong"; and medical and health products such as diabetic health products under the brandname of "Alpha"; fungi health products under the brandname of "Yisheng"; and intraocular lens, sleeping and respiratory diagnosis and monitoring products under the brandname of "Teda". The sales of such products were made either through the Group's own distribution network or directly to its customers. In 2005, the Group continued to gradually expand the distributor networks and sales offices for the Alpha's health and medical products throughout the PRC while through becoming the authorized distributor of Guangdong Fulilong Compound Fertilizers Company Limited ("Fulilong"), was committed to establish and develop the distribution network and point-of-sale terminal network for its biological fertilizer products in regions such as Shandong, Shaanxi, Shanxi, Guangdong, Guangxi, Hunan and Yunnan and has already achieved very significant results. Sales income recognized for the year amounted to RMB205,000,000, representing an increase of 250% from last year.

On 7 June 2005, all conditions of the Placing Agreement entered into between the Company and Sun Hung Kai International Limited ("SHK"), as the placing agent, for the placing of new placing H shares at a price of HK$0.161 per new placing H shares (the "Placing") had been satisfied, and thus the Placing had been completed. According to the announcement dated 8 June 2005 published pursuant to the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), 231,000,000 new placing H shares have been placed to a total of 15 placees. After the Placing, the Company's share capital structure comprises 331,000,000 H shares and 279,000,000 domestic shares. Those 331,000,000 H shares include the original 100,000,000 H shares in issue before the Placing, 210,000,000 new H shares issued under the Placing and 21,000,000 sale H shares converted from the equivalent number of domestic shares held by Tianjin TEDA International Incubator pursuant to the requirements under the Provisional Administrative Measures for the Reduction of State-owned Shares and the Raising of the Social Security Fund promulgated by the State Council of the PRC on 12 June 2001. New placing H shares commenced trading at 9:00 a.m. on 10 June 2005.

The Company has completed the acquisition of 51% equity interests in Fulilong and is now interested in a sizeable fertilizer manufacturer, well set to capture the business opportunities in the PRC fertilizer market. Fulilong was established in August 1996 and began its principal business of production and distribution of compound fertilizers in September 1996. As at 31 December 2005, Fulilong owns five production lines located at Dongguan of Guangdong Province and another one located at Xingping of Shaanxi Province, which all adopts the advanced technology of "Melt Granulation Method with High Tower" with an annual production capacity reaches approximately 800,000 tonnes of compound fertilizers.

Fulilong has been approved as "New and High Technology Enterprises" by the Department of Science and Technology of Guangdong Province (廣東省科學技術廳) since June 2003 and its quality control management system was awarded ISO9001 certification in July 2003.

The Group's intraocular lens ("IOLs") products had been awarded The Third Categories Medical Equipment Product Quality System Assessment Certificate (三類醫療器械產品質量體系考核證書) (Certificate no.: TDAQ 2005-021) by the Tianjin Food and Drug Administration in June 2005. Zhun Zi no. production registration certificate (准字號產品註冊證) was approved by the State Food and Drug Administration of the PRC (SFDA) on 25 January 2006. IOLs products are sold throughout 19 provinces, cities and autonomous regions. The Group is currently applying for ISO 13485: 2003 and ISO 9001: 2000 Medical Equipment Quality System (醫療器材質量體系) certification for that product and is expected to be completed in the first half of 2006.

Operating Environment

The PRC has a population of approximately 1.3 billion and cultivable land of 132,000,000 hectare (1.98 billion acre) and 1.5 acre per capita, that is 7% of the cultivable land of the world to feed 22% of the world population. According to forecasts by the Population Division, Department of Economic and Social Affairs of the United Nations, the PRC population will be more than 1.45 billion by 2030 and the demand of fertilizer products of the PRC will increase from 46,000,000 tonnes in 2005 to 60,000,000 tonnes in 2030. The State suggested in "the Summary of the Ninth-Five Plan on national economic and social development and the future targets for 2010 (國民經濟和社會發展"九五"計劃和2010年遠景目標綱要)" to "support the production technology demonstration and fertilizer technology demonstration of compound fertilizers, specialized fertilizers, biological fertilizers and organic fertilizers with technological characteristics and features". Currently, the ratio of the usage of compound fertilizers to the usage of chemical fertilizers is less than 25% in the PRC, while that of developed countries accounts for about 50% to 80%, therefore, there are still tremendous potentials for compound fertilizers in the PRC market. Food supply and quality are crucial to the political and economic stability of the PRC, and fertilizer products affect the supply and quality of food and crop to a great extent. The promulgation of "No. 1 Central Document" ("一號中央文件") in 2004 clearly manifested the State's strategic intention to place solving food problems in agriculture as its utmost priority. In 2005, the PRC continued to increase its support to agriculture-related areas, and the aggressiveness in the development of agriculture-related areas continued to grow, establishing a good development trend for the industry. The Company grasped market opportunities by penetrating its operating business to biological fertilizers which present brighter market prospects, and dedicated itself to focusing on the development of fertilizer products business and so far has achieved fruitful results.

In light of the increasing morbidity of illnesses such as cardiovascular disease, diabetes and hyperlipidemia, sugar-free food is becoming more and more popular, presenting substantial rooms for development in products varieties, target customer groups and market regions. The Company focuses on the development trend of diabetic health product market according to the current development of the PRC health product market, and together with the ever-changing factors of the domestic operating environment, the operating strategy of products in 2005 focused on the promotion of sugar-free health products, which are suitable to a wider range of target customers. The Company enriched its product varieties of sugar-free food and sugar-free beverages, and chose bargain markets and chain supermarkets as its sales channels.

In the PRC, with an aging population and improving living standard, people are becoming more health-conscious and are willing to "purchase health", pushing the consumption of medical and health products of hospitals and different clinics to domestic home to rise substantially. Currently, the structure of medical and health products is gradually transforming from solely diagnosis, treatment and laboratory testing towards multi-functional, such as diagnosis, treatment, examination, analysis, rehabilitation, physiotherapy and health care, and the market continues to expand. The Company responds closely to market changes, in addition to proactively engaged in the research and development, production and sales of IOL and monitoring equipment, it also introduced new products such as biological feedback rehabilitation products, so as to increase its market share as well as profits from sales of products.

Financial Highlights

During the year ended 31 December 2005, the sales income of medical and health products maintained stable growth. In light of the substantial increase in sales of the Company's fertilizer products, the Group's total turnover amounted to approximately RMB205,032,000 (excluding other revenues), representing an increase of 250% as compared with RMB58,646,000 recorded in 2004. As from April 2005, Shandong TEDA Bio-engineering Co., Ltd. ("Shandong TEDA"), a subsidiary of the Company, has become the nationwide distributor of fertilizer products under the brandname of Fulilong, and has built a network of 250 direct product supply distributors in 19 provinces, cities and autonomous regions in the country and contributed approximately RMB156,116,000 to the sales turnover of the Group and approximately RMB6,741,000 to the sales gross profit. The gross profit of licensed distribution of such products was 4.3%, resulting in a change in the Group's overall gross profit margin from 36% in 2004 to 15% in 2005. The Group obtained several production bases through acquisition, and received profits from such manufacturing segments, enhancing the gross profit margin of sales of biological fertilizers.

The Group successfully achieved turnaround, from loss attributable to equity holders of approximately RMB15,546,000 in 2004 to profit attributable to equity holders of approximately RMB773,000 in 2005. This was mainly due to the substantial increase in sales volume and gross profit, the enhancement of cost control of production processes and effective control of overall costs. Moreover, the Group recorded an operating gain of RMB432,000 for the three months ended 30 June 2005, and continued to record an operating gain of RMB137,000 for the three months ended 30 September 2005, and once again approximately RMB2,634,000 for the three months ended 31 December 2005, bringing us to the third consecutive quarter with an operating gain, evidencing the sustained improvement in the Group's operating results.

Research and development

As at December 2005, the Group had completed the preliminary allocation of its biological fertilizer product production bases in the PRC. It has five production lines in Dongguan of Guangdong Province and can produce 400,000 tonnes of biological compound fertilizers per year. The products are distributed to eight provinces, cities and autonomous regions in Southern China. The Group has established a production line which adopts the melts granulation method with high tower with an annual production capacity of 400,000 tonnes of high concentrated nitro-compound fertilizers. Such products have been introduced to the market, mainly supplied to eleven provinces, cities and autonomous regions in Western China, Eastern China, Northern China and Northeast region. Furthermore, the Group has begun the construction of an advanced production line with an annual production capacity of 400,000 tonnes of high concentrated biological compound fertilizers in Weifang of Shandong Province and a high tower production line with an annual production capacity of 200,000 tonnes of high concentrated biological compound fertilizers in Guizhou of Guizhou Province in 2005, which are expected to complete and commence trial production in the second half of 2006.

The biological fertilizer products from Fulilong have passed the assessment by a team of specialists, the results being "it posses unique characteristics and reaches international advanced level among the same kinds of products". In 2005, Fulilong has been listed as Guangdong Provincial Enterprise Technology Centre by Guangdong Province Economic and Trade Commission, Finance Bureau and General Administration of Customs. The brandname of "Fulilong" and "Lvzhou" (綠洲) have been granted "exemption from quality inspection (國家免檢產品)" by The National Technology Supervision Bureau (國家技術監督局) in December 2005.

Research and development *(continued)*

As regards the medical and health products, the Group's technicians continue to improve and enhance the technology standard and to modify the effectiveness of products such as IOLs, sleeping and respiratory equipments and monitors. At the same time, the Group follows the research and development processes including "new product market research, risk analysis, solution planning, sample trial production, product standard formulation, third party examination and testing, effectiveness testing, product registration and product design". On the medical products front, the Group has introduced biological feedback rehabilitation product series and has already completed feasibility study on market research, raw materials selection and technology justification. On the health food front, the launching of new "Alpha" products such as sugar-free wholewheat biscuits and orange-flavour sugar-free beverages added energy to the market, and has fuelled the steady growth of sales volume in various regions.

Sales Highlights

The major contribution to the Group's sales turnover was derived from biological fertilizer products. "Fulilong" brand series products promptly captured market share in various regions of the country leveraging on its edges in technology, variety and quality, coupled with the Group's reasonable and aggressive sales policy. In 2005, total sales of biological fertilizer products in the country reached approximately RMB156,116,000.

Another contribution to the sales of the Group was "Alpha" diabetic health food products. As the sales of sugar-free food increase, the total sales of Alpha health products reached approximately RMB30,794,000 in 2005.

Through the Group's subsidiary, Beijing TEDAX^2 Medical Engineering Company Limited, the Group continued to sell a series of new models of sleeping status monitoring equipment and multi-parameter monitoring equipment products as well as through the Group's subsidiary, Tianjin Wan Tai Bio-Development Company Limited, continued to sell medical equipment product such as IOLs. Sales of these products contributed turnover of approximately RMB10,237,000 in 2005.

Remaining contribution to the sales of the Group came from "Yisheng" fungi health products. The total sale of "Yisheng" fungi products reached approximately RMB7,885,000 in 2005.

Financial Status and Assets Structure

In 2005, the Company witnessed operating profits for the third consecutive quarter through the sales of its "Alpha", "TEDA" and "Fulilong" products in the PRC. The Group will continue to extend its scope of sales and adopt a more stringent cost management and cost control so as to further enhance profitability and achieve profit for the year.

Operating loss of the Group for the year ended 31 December 2005 decreased by approximately 100% to RMB24,000 as compared with the same in 2004. Excluding the provision for doubtful debts and the sales proceed derived from the sale of right to use the Group's proprietary technology, save as the finance expenses which increased due to the increase in bank loans, the general and administration expenses (including research and development expenses) decreased by approximately 35% compared to the corresponding period in 2004, manifesting the Group's success in implementing cost control measures to minimize operating expenses. The Group will continue to implement stringent cost control measures and adopt the most cost-effective methods for daily operations.

Structure of assets of the Group as at 31 December 2005 is as follows:

Total assets was RMB208,266,000. Current assets, fixed assets, investment and other non-current assets accounted for 63%, 20%, 12% and 5% of the total assets respectively.

Future Outlook

In the future development process, the Group will penetrate its biological engineering technologies into the furthest frontier of the market, providing high quality products and services to most consumers in the PRC.

The PRC is the largest chemical fertilizer-production and chemical fertilizer-consumption country. Consumption of compound fertilizers accounts for approximately 25% of country's total chemical fertilizer consumption, which is far lower than the 50% to 80% consumption level of developed countries. Hence, there is huge room for development in the market. The Group has successfully tapped into the fertilizer product market and is dedicated to build up a brandname of high quality compound fertilizers with the application of high technology. It is expected that its production bases will form an ideal composition in the PRC including Dongguan, Guangdong Province (covering Southern China), Xing Ping, Shaanxi Province (covering Northwest China), Weifang, Shandong Province (covering Eastern China, Western China, Northwest China) and Guiyang, Guizhou Province (covering Southwest China). Leveraging on the abundant resources from the production bases throughout the country, we have an extensive product variety with biological organic compound fertilizers, nitryl compound fertilizers and urine compound fertilizers as its core products. Adopting the advanced high tower technology, the Group intends to secure a considerable number of direct distributors in the PRC market, as well as to increase the training, construction, management and service of the terminal sales network, and to build up an extensive sales network in three years, with an aim to become one of the top biological fertilizer product suppliers.

In the meantime, medical equipment products under the "Teda" brand and "Alpha" sugar reducing and sugar-free health products continue to be a source of turnover and revenue to ensure stable growth.

Segmental information

The Group principally operates in two business segments: (1) biological fertilizers; (2) medical and health products.

The results of the Group by segments for the year ended 31 December 2005 and the year ended 31 December 2004 are disclosed in Note 4 to the accompanying accounts.

Liquidity, financial resources and gearing ratio

During the year under review, the Group financed its operations mainly by internally generated cash and banking facilities.

As at 31 December 2005, the Group's consolidated shareholders' funds, current assets and net current assets were about RMB65.4 million (2004: RMB30.5 million), RMB131.5 million (2004: RMB90.1 million) and RMB22.4 million (2004: RMB1 million) respectively. The Group's current assets as at 31 December 2005 comprised mainly cash and bank balances of RMB16.8 million (31 December 2004: RMB6 million), pledged bank deposits of RMB nil (31 December 2004: RMB25 million), trade receivables of RMB63.2 million (31 December 2004: RMB28.1 million) and inventories of RMB31.1 million (31 December 2004: RMB18 million).

As at 31 December 2005, the total bank borrowings of the Group amounted to RMB51.5 million (31 December 2004: RMB58.8 million). The bank borrowings are denominated in Renminbi and provided by various licensed banks in the PRC with fixed interest rates from 5.6% to 7.3% (31 December 2004: 5.3% to 7.3%) per annum. Of the bank borrowings, a total amount of RMB25,000,000 and RMB26,500,000 will mature in March 2006 and June 2006 respectively.

As at 31 December 2005, the Group's gearing ratio, defined as the ratio of total bank borrowings to total assets, was 0.25 (31 December 2004: 0.48). The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was 1.21 (31 December 2004: 1.02).

Charges on the Group's assets and contingent liabilities

As at 31 December 2005, the Company had contingent liabilities amounting to RMB1 million in connection with the provision of guarantee as security for bank loans granted to it subsidiaries (31 December 2004: RMB3.8 million).

Material acquisitions and disposals

The Board of Directors of the Company announced on 3 October 2005 that the Company, the existing shareholders of Fulilong and Fulilong entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to subscribe for the 51% equity interest in Fulilong as enlarged by the subscription (the "Subscription Capital") by way of cash injection. Pursuant to the GEM Listing Rules, the subscription constituted a very substantial acquisition on the part of the Company. The Subscription Capital amounts to RMB8,326,500 represents (a) approximately 104% of the registered capital of Fulilong as at 3 October 2005 of RMB8,000,000; and (b) 51% of the enlarged registered capital of Fulilong upon completion of the subscription of RMB16,326,500. The consideration for the Subscription Capital is RMB32.5 million, and has been 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 as at 30 June 2005 prepared in accordance with the generally accepted accounting principles in the PRC and the intention of the Company to obtain a 51% interest in Fulilong. The Company has completed the subscription in December 2005.

Fulilong entered into a cooperation agreement in July 2005 with a fertilizer manufacturer in Qingzhen, Guiyang of Guizhou Province, the PRC to set up a production base with an annual capacity of 200,000 tonnes of highly concentrated urea based compound fertilizers (尿基複合肥) under which the cooperation partner is responsible for establishing the production plant while Fulilong is responsible for the technical support and design and the provision of the production equipment. The production plant will belong to the cooperation partner and the cooperation partner shall manufacture according to the production plan of Fulilong, which shall purchase all products manufactured by the cooperation partner. It is expected that the production base will commence trial production in the second half of 2006.

The Board of Directors of the Company also announced on 15 September 2005 that the Company entered into the Equity Transfer Agreement on the same day, pursuant to which the Company has agreed to dispose of 70% of the equity interests in Tianjin Yisheng Bioengineering Company Limited#, "Tianjin Yisheng" (天津益生生物工程有限公司) to Lei Yu Hua, an independent third party, at a cash consideration of RMB3,500,000. The consideration of the Equity Transfer Agreement has been determined on an arm's length basis between the parties to the Equity Transfer Agreement and with reference to the audited net asset value of Tianjin Yisheng of RMB4,052,621, 70% of which represented RMB2,836,839, as at 31 August 2005. Accordingly, the consideration exceeded the audited net asset value of Tianjin Yisheng as at 31 August 2005 by RMB663,161, thus the equity interests in Tianjin Yisheng had been disposed of at a premium of 23.4%. Based on the audited net asset value of Tianjin Yisheng as at 31 December 2004, the equity interests in Tianjin Yisheng had been disposed of at a premium of approximately 9.1%. The consideration is payable by an one-off payment to the Company in cash within six months from the date on which the Equity Transfer Agreement was signed, and was paid in March 2006. Due to the fact that Tianjin Yisheng has been loss-making since establishment, coupled with the uncertainties in relation to the application for the requisite approvals, the Company sold all of its interests in Tianjin Yisheng.

for identification purpose only

Employees and remuneration policies

As at 31 December 2005, the Group had 293 employees (2004: 377 employees). Remuneration of the Group's employees are determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employees. Discretionary bonuses are paid to employees depending on individual performance as recognition of and reward for their contribution. Other benefits include contributions to retirement schemes, medical schemes, unemployment insurance schemes and housing allowances. For the year ended 31 December 2005, the staff costs of the Group were approximately RMB7.32 million (2004: RMB12.7 million). The decrease in staff costs was mainly due to decrease in staff fringe benefits.

Exposure to foreign currency risk

The Group has no foreign currency risk since all sales of the Group are domestic sales in the PRC denominated in Renminbi and all payables to suppliers are also denominated in Renminbi.

Treasury Policy

Since there is no foreign exchange risk, the Group's bank borrowings are denominated in Renminbi and are usually renewed for one year upon maturity. The cash proceeds from the placing of H shares of the Company in June 2002 has been utilized according to the schedule of use of proceeds set out in the paragraph headed "Use of proceeds" under the section headed "Business objectives" of the prospectus of the Company dated 10 June 2002 and the interim report 2004 of the Company dated 10 August 2004. In the meantime, any surplus cash is placed as time deposits with licensed banks in the PRC.

Use of proceeds

The Company has raised net proceeds of RMB74.5 million from the issue of new H shares of the Company upon the listing of the Company on GEM in June 2002 and net proceeds of RMB33.5 million from the new placing of H shares in June 2005. As at 31 December 2005, the Group has utilized the net proceeds as follows:

(RMB million)	Use of proceeds as stated in the prospectus	Use of proceeds as stated in the circular in relation to the proposed placing of new H shares and proposal to obtain further specific mandate of November 2004	Sub-total of use of proceeds	Actual amount utilized up to 31 December 2005
Research and development	2.5	0.0	2.5	2.1
Expansion of production facilities	16.3	0.0	16.3	4.1
Expansion of marketing and distribution network	5.5	5.2	10.7	6.8
Accelerating the commercialisation of products	35.2	6.3	41.5	14.7
Establishment of treatment centres	5.0	0.0	5.0	0.0
Investment in suitable projects	0.0	22.0	22.0	32.5
Working Capital	10.0	0.0	10.0	38.6
Total	74.5	33.5	108.0	98.8

For details, please refer to the 2002 annual report and 2003 and 2004 quarterly reports of the Company.

During the year 2005, the funding for the expansion of marketing and distribution network and working capital was sourced from bank borrowings from licensed PRC banks. The Board determines to adopt this policy in the future operation of the Group so as to enhance the Group's profitability and the efficiency for the use of fund through effective leveraging.

Directors

Executive Directors

Mr. Wang Shuxin, aged 41, is the Chairman of the Board of Directors of the Company and is responsible for the Company's strategic planning and business development. Mr. Wang was instrumental in the establishment of Tianjin TEDA International Incubator (天津泰達國際創業中心) ("TTII") in April 1996 and has been the legal representative of Tianjin TEDA Institute of Biomaterials and Medical Engineering (天津開發區泰達生物材料與醫學工程研究所) ("IBME") since January 1998. He was appointed as Chairman of the Board of Directors of the Company in September 2000, Mr. Wang graduated from Tianjin University (天津大學) in 1988 with a master's degree in Organic Chemical Engineering (有機化工專業). In February 1999, he obtained a post-graduate qualification in accounting from Tianjin Financial Institute of Finance and Economic (天津財經學院). In 1997, Mr. Wang participated in the commercialization of the technology relating to clinical catheters. He subsequently became involved in the establishment of IBME in January 1998 and received one of the Ten Outstanding Youth awards (十大傑出青年) in 1998. In 1999, Mr. Wang led the establishment of an enterprise postdoctoral research workstation in Tianjin Economic-Technological Development Area (天津經濟技術開發區). Mr. Wang has been the supervisor of TTII since 1996 and has held the position of Chairman of TTII since December 1997.

Mr. Xie Kehua, aged 49, is the director and general manager of Tianjin Alpha Health Care Products Co., Ltd. (天津阿爾發保健品有限公司) ("Alpha"). Mr. Xie graduated from Chinese Traditional Medicine Department of Heilongjiang Institute of Commerce (黑龍江商學院中藥系) in July 1982 with a bachelor degree. Mr. Xie was appointed as the chief engineer of the Chinese medicine factory (中藥制藥廠) under the Tianjin Chinese Medicine Group (天津中藥集團) and was the supervisor of Hangzhou Wanaha Group Research and Development Centre (杭州娃哈哈集團科研開發中心). He was awarded the Best Scholar of New Products (新品狀元) and became leader of the Initiation of Technology Development (新品開發帶頭人) in 1992 and was further recognized as a senior engineer in 1995. Mr. Xie was appointed as one of the first directors and the first manager of Alpha in August 1994. Mr. Xie was appointed as an executive director of the Company in September 2000.

Ms. Zheng Dan, aged 42, is the director and general manager of Beijing TEDAX2 Medical Engineering Co. Ltd.. Ms. Zheng was responsible for TTII's management accounting, public accounting and financial management. Ms. Zheng started her professional career in 1988 and joined TTII in 1996. Ms. Zheng graduated from the Accounting Department of Tianjin Institute of Finance and Economic (天津財經學院會計專業) with a bachelor degree in economics in 1986. Ms. Zheng became an executive director of the Company in September 2000.

Non-executive Directors

Mr. Feng Enqing, aged 47, graduated from Tianjin Industrial University (天津工業大學) in 1982 with a degree in textile chemical engineering (紡織化學工程) and joined TTII as the project manager in 1996. He was previously the supervisor and chief engineer of Tianjin Xinggang Textile Manufacture (天津新港紡織廠). Mr. Feng is a director of Alpha and the chief engineer of TTII. He joined the Company as a non-executive director in September 2000.

Directors *(Continued)*

Non-executive Directors *(Continued)*

Mr. Xie Guangbei, aged 51, graduated from Nankai University in 1993 with a master's degree in Economics. In 1998, he was granted a MBA degree from Rensselaer Polytechnic Institute in Troy, New York, US. He is the investment and financial consultant of the Office of Residential Property Commercialization headed by the Ministry of Construction. He is also the vice chairman and president of Tianjin Securities Investment Consulting Company Limited (天津證券投資諮詢有限公司). He was an engineer of the Business Department of China Shizheng Huabei College of Design (中國市政華北設計院計畫經營處), director and deputy general manager and senior engineer of Tianjin Eastern International Engineering Consultancy (天津東方國際工程諮詢). He joined the Company as an independent supervisor of the Company in November 2000 and was appointed as a non-executive director in November 2003.

Mr. Liu Zhenyu, aged 33, graduated from the Bachelor of Laws programme of Tianjin Normal University (天津師範大學) in 1995. He then undertook postgraduate study in Economic and Finance at Nankai University (南開大學) and was awarded the Master of Economics in 2001. From November 2000 to June 2002, he worked as project manager of the Investment and Development Department of Tianjin TEDA Group Company Limited (天津泰達集團有限公司). Currently, he is the Deputy Manager of Asset Management Department of Tianjin TEDA Investment (Holding) Company Limited (天津泰達投資控股有限公司). Mr. Liu joined the Company as a non-executive director in November 2003.

Independent non-executive Directors

Professor Xian Guoming, aged 54, is a professor of Nankai University and the tutor of candidates pursuing the doctoral degree. He is the head of the Teda Faculty of Nankai University, and the director of Research Center of Multi-national Corporations of Nankai University. Professor Xian also acts as the deputy secretary of China Academy of Global Economics, and as an independent director of Yifangda Funds Management Company. He specializes in research on international investments by multi-national corporations. Professor Xian is also the independent director of three listed companies, namely Nankai Gede Co., Ltd., Sichuan Dong Tai (Holding) Co Ltd and Tong Ren Hua Su Co Ltd. He was appointed as an independent non-executive director of the Company in August 2001.

Mr. Chan Yip Kai Philip, aged 53, graduated from the Chinese University of Hong Kong Special Administrative Region of the PRC with the degree of bachelor of business administration in 1978. Mr. Chan also gained the degree of master of arts in economics and finance from Webster University of U.S.A. in 1985. He has been the associate member of Hong Kong Institute of Marketing since 1984. He previously worked with IBM China/Hong Kong Corporation, IBM Canada Limited, and The Financial & Administrative Services Branch of the Ontario Ministry of Community & Social Services of Canada. Thereafter from 1994 to 1996, he was employed as the Manager – China Department of Hsin Chong Construction Co., Ltd. responsible for business development. Meanwhile, he was appointed as the director of Hsin Chong Development (China) Limited and Hsin Chong Development (Vietnam) Limited. And, from 1996 to 1999, he was employed as the Chief Executive Officer of China Construction Resources Limited with operations mainly in PRC. Since 1999, Mr. Chan has been working as the executive director of World Jet (Hong Kong) Capital Limited which provides business consultancy services and acted as the listing consultant of the Company during the period from September 2000 to June 2002 when the Company's H shares were listed on the GEM.

Directors *(Continued)*

Independent Non-executive Directors *(Continued)*

Mr. Guan Tong, aged 37, graduated from the Enterprise Management Faculty (企業管理系) of Nankai University (南開大學) of the PRC in 1993. He was appointed as an accountant of Tianjin Zhonghuan Industrial and Development Company (天津中環實業開發公司) from 1991 to 1997 and as a Financial Manager of Tianjin LG Electronic Company Limited (天津LG電子有限公司) from 1997 to 1999. Mr. Guan became a qualified PRC Certified Public Accountant in July 2001 and a PRC qualified valuer in October 2003. During the period from 1999 to 2004, Mr. Guan worked with Tianjin Tiandi Certified Public Accountants (天津天地會計師事務所) involving in the audit work of various types of domestic and foreign investment enterprises and in asset valuation. He also participated in the auditing work of a private enterprise in Tianjin which was applying for its shares to be listed on the Singapore Exchange Securities Trading Limited in Singapore. From September 2004, Mr. Guan works with Tianjin Star Point Certified Public Accountants (天津起點會計師事務所) as audit manager.

Supervisors

Mr. Hao Zhihui, aged 44, is the chairman of supervisors board. Mr. Hao graduated from Tianjin Medical University in 1992 with master's degree in medicine. Mr. Hao joined TTII in September 1997, and is presently Chief of the Medicine Industry Department (醫藥產業部部長) and is responsible for the supervision of TTII's Medical Industry Department (醫藥產業部). He participated in strategic research on the bio-medical's industry development in TEDA and is mainly responsible for the management of the research and development of curcumin. Mr. Hao is a director of Alpha, and Tianjin Tetrahredron Chemical Co., Ltd. (天津四面體化學有限公司). He joined the Company as a supervisor in September 2000.

Mr. Yuan Wei, aged 53, graduated from the Tianjin School of Chinese Traditional Medicine (天津中藥學校) in 1975. He previously held the position of head of quality control at the Tianjin Chinese Medicine Plan (中藥製藥廠) before joining Alpha in August 1994. He is currently the administrative officer (辦公室主任) of Alpha. Mr. Yuan was appointed as a supervisor of the Company in September 2000.

Independent Supervisors

Mr. Chang Zheng, aged 37, graduated from the Accounting Department of Tianjin Institute of Finance and Economic (天津市財經學院會計學系) in 1991 with a bachelor's degree in Economics. He was previously a financial manager at Sino-American Tianjin Yousheng Industry Co., Ltd. (中美合資天津友升實業有限公司). He joined TTII in June 1999, and is the head of the Finance Department of TTII. Mr. Chang was appointed as a supervisor of the Company in September 2000 and an independent supervisor of the Company in November 2003.

Mr. Zhu Gang, aged 41, graduated from Tianjin University in 1993 with a master's degree in Management Engineering. He is a certified public accountant in the PRC and obtained PRC registration in account and securities auditing in 1999. Mr. Zhu was the president of Tianjin Chuangxin Investment Management Co. (天津創新投資管理公司) and was employed as the general manager of Tianjin Songde Certified Public Accountant (天津松德會計師事務所) in 1997 and has considerable experience in accounting and management finance. Mr. Zhu was appointed as an independent supervisor of the Company in September 2000.

Senior Management

Chief Executive Officer

Mr. Zhang Songhong, aged 43, received his education in the People's Republic of China (the "PRC"). He worked in various governmental authorities in Shenzhen, the PRC during the period from September 1985 to December 1995. Mr. Zhang has been the chairman of the board of directors of Guangdong Fulilong Compound Fertilizers Company Limited, of which the Company holds 51% equity interests, since 1996.

Qualified Accountant and Company Secretary

Mr. Ng Ka Kuen, Raymond, aged 45, was an associate member of the Association of Cost and Executive Accountants in September 1985 and became a fellow member of that Association in October 1986. In November 1997, he was awarded a Graduate Diploma in Administration and a Bachelor Degree of Arts by Australian Catholic University, Australia and Ottawa University, Ottawa, Kansas State, the United States of America respectively. Mr. Ng became a member of the Institute of Certified Public Accountants in Ireland in October 2002, a fellow member of the Institute of Chartered Secretaries and Administrators in November 2003 and an associate member of the Association of International Accountants in June 2004. In April and July 2005, Mr. Ng became a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Taxation Institute of Hong Kong respectively. Before joining the Company, Mr. Ng has more than 10 years audit experience.

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the current reporting period of 2005, in accordance with the requirements of the Company Law of the People's Republic of China and relevant regulations and the Articles of Association of the Company, all members of the Supervisory Committee of the Company performed their duties and carried out various work on a bona fide and diligent basis with an aim to standardise the operations of the Company and to protect the interests of its shareholders.

I. Meeting of the Supervisory Committee and Particulars of Resolutions

On 11 May 2005, the third meeting of the Second Supervisory Committee of the Company was convened at the conference room of the Company, at which the first quarterly report of the unaudited results for the three months ended 31 March 2005 of the Company was reviewed and approved;

On 10 August 2005, the fourth meeting of the Second Supervisory Committee of the Company was convened at the conference room of the Company, at which the half-yearly report of the unaudited results for the six months ended 30 June 2005 of the Company was reviewed and approved;

On 11 November 2005, the fifth meeting of the Second Supervisory Committee of the Company was convened at the conference room of the Company, at which the third quarterly report of the unaudited results for the nine months ended 30 September 2005 of the Company was reviewed and approved.

On 15 March 2006, the sixth meeting of the Second Supervisory Committee of the Company was convened at the conference room of the Company, at which the consolidated financial statements of the Group for the year 2005 audited by Horwath Hong Kong CPA Limited and the use of proceeds by the Group were reviewed and approved.

II. Jobs Carried Out by the Supervisory Committee during the Reporting Period

1. In 2005, the Company successfully completed the placing of 210,000,000 new H shares and established a solid foundation for further development. The management of the Company continued to proactively explore opportunities and diversified the business of the Company from medical and health products to biological compound fertilizers, so as to maximize benefits to the Company and achieved relatively encouraging operating results. During the period, the Supervisory Committee further strengthened its efforts on the supervision of management and participated in the decision making process of the management of the Company by attending the meetings of the Board.

2. The Supervisory Committee regularly reviews the Company's financial statements and accounts to ensure the Company's accurate, detailed and timely preparation of financial statements and accounts. To the best knowledge of the Supervisory Committee to date, there are no inappropriate disclosures in those financial statements and accounts.

3. The Supervisory Committee supervises the performance of all directors and other executives. The Supervisory Committee believes that all directors and other executives have performed their duties on a bona fide and diligent basis, and for the best interests of the Company. To the best knowledge of the Supervisory Committee to date, no directors or other executives had violated any regulations of the Company Law of the People's Republic of China, the Articles of Association of the Company and other laws and regulations of the People's Republic of China during the reporting period.

4. the auditors' report issued by Horwath Hong Kong CPA Limited truly, fairly and accurately reflects the Group's financial position at 31 December 2005 and operating results for the year then ended.

By order of the Supervisory Committee
Tianjin TEDA Biomedical Engineering Company Limited
Chairman of the Supervisory Committee
Hao Zhihui

15 March 2006

Corporate Governance Practices

Except for the deviations as disclosed on this report, in the opinion of the Board, the Company has complied with all the code provisions on Corporate Governance Practices (the "Code") as set out in the GEM Listing Rules by establishing a formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the year ended 31 December 2005.

Board of Directors and Board Meeting

Board Composition and Board Practices

The Board, headed by the Chairman, Mr. Wang Shuxin (王書新), is responsible for corporate strategy, annual and interim results, succession planning, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of Directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of Directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

The Board comprises nine Directors of the Company including three executive Directors, three non-executive Directors and three independent non-executive Directors. All executive Directors have given sufficient time and attention to the affairs of the Group. Each executive Director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no financial, business, family or other material/relevant relationship amongst the Directors. The Directors' biographical information is set out on pages 17 to 20 under the section headed "Directors, Supervisors and Senior Management" of this annual report.

The Board members for the year ended 31 December 2005 were:–

Executive Directors

Mr. Wang Shuxin (王書新) *(Chairman)*
Mr. Xie Kehua (謝克華)
Ms. Zheng Dan (鄭丹)

Non-executive Directors

Mr. Feng Enqing (馮恩慶)
Mr. Liu Zhenyu (劉振宇)
Mr. Xie Guangbei (謝光北)

Independent non-executive Directors

Professor Xian Guoming (冼國明)
Mr. Chan Yip Kai Philip (陳協佳) (appointed on 22 September 2005)
Mr. Guan Tong (關彤) (appointed on 22 September 2005)
Professor Xiao Zhuoji (蕭灼基教授) (resigned on 22 September 2005)
Ms. Zhao Xiuying (趙秀英) (resigned on 22 September 2005)

Board of Directors and Board Meeting *(Continued)*

Board Composition and Board Practices *(Continued)*

The Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence, accountability and responsibility. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The Chief Executive Officer is responsible for managing the Group's business and overall operations. The day-to-day running of the Company is delegated to the management with divisional heads responsible for different aspects of the business.

With the appointment of Chief Executive Officer namely Mr. Jaca Liang Kai Huang since 12 November 2002, the Chairman and Chief Executive Officer of the Company are segregated and are not exercised by the same individual to improve the transparency and independency of the corporate governance. However, with the resignation of Chief Executive Officer since April 2004, Mr. Wang Shuxin has been temporarily both the Chairman and Chief Executive Officer who is responsible for managing the Board and the Group's business for the Board to seek suitable candidate to fill the vacancy of Chief Executive Officer.

During the period under review, the Company has not complied with the requirement to separate the roles of Chairman and Chief Executive Officer as set out in Code provision A.2.1 of the Code as the Company could not find a suitable candidate to fill the vacancy of Chief Executive Officer after the resignation of Mr. Jaca Liang Kai Huang since April 2004. On 4 January 2006, the Board appointed Mr. Zhang Songhong as the Chief Executive Officer of the Company and thereby the Code provision A.2.1 has been complied with.

Executive directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directors set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-executive directors (including independent non-executive directors) serve the important function of advising the management on strategy development and ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding interests of shareholders and the Company as a whole.

During the year, the Board complied at all times with the minimum requirements of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors and one of them has the appropriate professional qualifications required under Rule 5.05 of the GEM Listing Rules.

Professor Xian Guoming (冼國明) has been re-elected as an independent non-executive Director for a term of three years commencing on 1 January 2005. The term of appointment for Mr. Chan Yip Kai Philip (陳協佳) and Mr. Guan Tong (關彤) are for an initial term of three years commencing from 22 September 2005.

To the best knowledge of the Company, there is no financial, business and family relationship among members of the Board and between the Chairman and the Chief Executive Officer. All of them are free to exercise their independent judgement.

Board of Directors and Board Meeting *(Continued)*

Board Composition and Board Practices *(Continued)*

Throughout the year, the Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group. During the year, the Board held nine meetings for the discussion and approval of important matters such as the approval of quarterly results, interim results and annual results, dividends, the Group's annual budget, business and investments etc. In addition, the Group's management also met with certain non-executive Directors to seek their views on certain business or operational matters. Apart from the regular board meetings of the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive details of agenda items for decision and minutes of committee meetings in advance of each board meeting. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association. Notice of at least 15 days is given of a regular board meeting to give all Directors an opportunity to attend. Whereas, notice of at least 15 days will be given of a regular board meeting in the forthcoming year.

No insurance coverage has been purchased for any of the Directors as the Board do not foresee any contingent liabilities against the Group.

The board of Directors held a full board meeting for each quarter.

The attendance record of the Board meetings is as follows:–

Name of directors	**Attendance/Number of Meetings held**
Executive Directors	
Mr. Wang Shuxin (王書新) *(Chairman)*	9/9
Mr. Xie Kehua (謝克華)	9/9
Ms. Zheng Dan (鄭丹)	8/9
Non-executive Directors	
Mr. Feng Enqing (馮恩慶)	9/9
Mr. Liu Zhenyu (劉振宇)	8/9
Mr. Xie Guangbei (謝光北)	8/9
Independent non-executive Directors	
Professor Xian Guoming (冼國明)	6/9
Professor Xiao Zhouji (蕭灼基) (resigned on 22 September 2005)	0/9
Ms. Zhao Xiuying (趙秀英) (resigned on 22 September 2005)	3/9
Mr. Chan Yip Kai Philip (陳協佳) (appointed on 22 September 2005)	1/9
Mr. Guan Tong (關彤) (appointed on 22 September 2005)	1/9

Board of Directors and Board Meeting *(Continued)*

Board Composition and Board Practices *(Continued)*

Board papers are circulated not less than 2 days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the board meetings. The Company Secretary attend all regular board meetings to advise on corporate governance and statutory compliance when necessary. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meeting. The Company Secretary also keeps the minutes, which are open for inspection at any reasonable notice by any Director.

Remuneration Committee

According to the Code, the Company has set up a remuneration committee on 11 November 2005 with a majority of the members thereof being independent non-executive Directors. The remuneration committee comprises Mr. Xie Guangbei (謝光北), a non-executive Director, Mr. Chan Yip Kai Philip (陳協佳) and Mr. Guan Tong (關彤), both independent non-executive Directors, with Mr. Xie Guangbei (謝光北) as the chairman of the remuneration committee. The remuneration committee schedules meet at least once a year and the quorum necessary for the transaction of business is two.

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and determined the remuneration of non-executive and independent non-executive Directors and supervisors and independent supervisors of the Company. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The remuneration committee of the Company has considered and reviewed the existing terms of service contracts of the Directors and considers that the existing terms of the service contracts are fair and reasonable.

Prior to the establishment of the remuneration committee, the chairman of the Board of Directors of the Company is responsible for reviewing remuneration of the executive Directors, non-executive Directors and independent non-executive Directors and supervisors and independent supervisors of the Company and submitted recommendation to the Board for approval at Board meetings with the presence of the independent non-executive Directors.

Nomination of Directors

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the period under review, the Company has not complied the requirement to establish a nomination committee with specific written terms of reference which deal clearly with its authority and duties as set out in Code provision A.4.4 of the Code. The Company has not set up any nomination committee although the Company is intending to set up such committee in 2006.

The Chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

Nomination of Directors *(Continued)*

The Company has complied with Code provision A.4.1 and A.4.2 of the Code as required by the GEM Listing Rules. According to the Company's Articles of Association, the Company appoints its directors for a maximum term of three years and shall be elected by shareholders at annual general meeting every three years.

All Directors (including executive, non-executive and independent non-executive directors) are subject to election for appointment by shareholders at the annual general meeting at every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of Executive Directors', Non-executive Directors' and Independent Non-executive Directors' contracts by either parties is not less than one month.

Audit Committee

The Group had established an audit committee on 31 July 2004 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The audit committee comprises three independent non-executive Directors including Mr. Guan Tong (關彤) who possesses the appropriate professional qualifications as required under Rule 5.05(2) of the GEM Listing Rules.

A total of five audit committee meetings were held during the year to review and discuss the final, quarterly and interim results and annual financial statements respectively. Additional meetings may also be held by the audit committee from time to time to discuss special projects or other issues that the audit committee considers necessary. The external auditors of the Group may request a meeting if they consider necessary.

The authorities of the audit committee include (1) investigation of any activity within its term of reference; (2) seeking any information it requires from any employee; and (3) obtaining outside legal or other independent professional advice if it considers necessary.

The main duties of the audit committee are as follows:

- To consider the appointment of the external auditors, the audit fee, and any question of resignation or dismissal;
- To discuss with the external auditors the nature and scope of the audit;
- To review and monitor the external auditors, independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;
- To develop and implement policy on the engagement of external auditors to supply non-audit services;
- To review the Group's quarterly, interim and annual financial statements before submission to the Board;
- To discuss problems and reservations arising from the final audits and any matters that the external auditors may wish to discuss;
- To review the Group's statement on internal control system prior to endorsement by the Board;
- To consider the major findings of any internal investigation and the management's response; and
- To consider other topics, as defined by the Board.

Audit Committee *(Continued)*

The attendance record of the audit committee meetings is as follows:–

Name of directors	Attendance/Number of Meetings held
Professor Xian Guoming (冼國明)	5/5
Professor Xiao Zhouji (蕭灼基) (resigned on 22 September 2005)	2/5
Ms. Zhao Xiuying (趙秀英) (resigned on 22 September 2005)	2/5
Mr. Chan Yip Kai Philip (陳協佳) (appointed on 22 September 2005)	2/5
Mr. Guan Tong (關彤) (appointed on 22 September 2005)	2/5

Throughout the year under review, the audit committee discharged its responsibilities, reviewed and discussed the Group's quarterly results for the three months ended 31 March 2005, 30 June 2005, 30 September 2005 and audited financial statements for the year ended 31 December 2005 and internal control system of the Group.

Auditors' Remuneration

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company.

External Auditors

PricewaterhouseCoopers, Certified Public Accountants ("PricewaterhouseCoopers"), had tendered their resignation as External Auditors of the Company and its subsidiaries with effect from 30 November 2005 because the Company and PricewaterhouseCoopers could not compromise on the audit fee for the year ended 31 December 2005. Horwath Hong Kong CPA Limited, Certified Public Accountants ("Horwath"), recommended by the audit committee, were appointed as External Auditors of the Company and its subsidiaries with effect from 30 November 2005 to fill the casual vacancy arising on the resignation of PricewaterhouseCoopers and shall hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31 December 2005 have been audited by Horwath.

The audit committee reviews each year a letter from the External Auditors confirming their independence and objectivity and holds meetings with the External Auditors to discuss the scope of their audit.

The Group's External Auditors are Horwath for the year ended 31 December 2005 (for the year ended 31 December 2004: PricewaterhouseCoopers). During the year, the Group has engaged the External Auditors to provide the following services and their respective fees charged are set out as below:–

	Fee Charged	
Types of Services	**for the year ended 31 December 2005*** **RMB'000**	for the year ended 31 December 2004** RMB'000
Audit for the Group	976	1,103

Audit Committee *(Continued)*

External Auditors *(Continued)*

Notes:

* Services provided by Horwath

** Services provided by PricewaterhouseCoopers

Directors' Responsibility for the Financial Statements

The Directors knowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statements of the external auditors of the Company, Horwath CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Report of Auditors on page 38 of this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, other than those disclosed in Note 3(a) to the accompanying audited financial statements for the year ended 31 December 2005.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure the effective and adequate internal control system. The Company convened meeting periodically to discuss financial, operational and risk management control. The audit committee also reviews the internal control systems and evaluate their adequacy, effectiveness and compliance on a regular basis.

Investor Relations and Communication with Shareholders

The Company has disclosed all necessary information to the shareholders and investors in compliance with GEM Listing Rules and uses a number of formal communications channels to account to shareholders and investors for the Company. These include (i) the publication of quarterly and annual reports; (ii) the annual general meeting or extraordinary general meeting providing a forum for shareholders of the Company to raise comments and exchanging views with the Board; (iii) the Company replying to the enquires from shareholders timely; (iv) updated and key information of the Group available on website of the Company; (v) the Company's website offering communication channel between the Company and its shareholders and investors; and (vi) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

Looking Forward

The Group will keep on reviewing its corporate governance standards on a timely basis and the Board endeavours to take the necessary actions to ensure compliance with the required practices and standards including the provisions of the Code on Corporate Governance Practices introduced by the Stock Exchange.

The Directors submit their report together with the audited financial statements of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2005.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Company are investment holding, research, development and commercialization of medical and diabetic health food products and fertilizer products.

The activities of the subsidiaries are set out in Note 15 to the accompanying accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 4 to the accompanying financial statements.

Change of Share Capital

On 28 June 2005, both registered capital and paid-up capital of the Company have been increased from RMB40,000,000 to RMB61,000,000. Details of the movements in share capital of the Company are set out in Note 26 to the accompanying financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 39 of this annual report.

The Directors do not recommend the payment of any dividend during the year.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statements of changes in equity on page 79 of this annual report and Note 27 to the accompanying financial statements respectively.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 12 to the accompanying financial statements.

Pre-emptive Right

There is no provision for pre-emptive right under the Company's Articles of Association and there is no restriction against such a right under the laws of the People's Republic of China (the "PRC").

Financial Summary

The summary of the results and the assets and liabilities of the Group for the last five financial years ended 31 December 2005 is set out on page 6 of this annual report.

Purchase, Sale or Redemption of Securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Directors and Supervisors

The Directors and Supervisors during the year were:

Executive Directors:

Mr. Wang Shuxin (王書新) (re-elected on 1 January 2005)
Mr. Xie Kehua (謝克華) (re-elected on 1 January 2005)
Ms. Zheng Dan (鄭丹) (re-elected on 1 January 2005)

Non-executive Directors:

Mr. Feng Enqing (馮恩慶) (re-elected on 1 January 2005)
Mr. Liu Zhenyu (劉振宇) (re-elected on 1 January 2005)
Mr. Xie Guangbei (謝光北) (re-elected on 1 January 2005)

Independent Non-executive Directors:

Professor Xian Guoming (冼國明教授) (re-elected on 1 January 2005)
Professor Xiao Zhuoji (蕭灼基教授)(resigned on 22 September 2005)
Ms. Zhao Xiuying (趙秀英) (resigned on 22 September 2005)
Mr. Chan Yip Kai Philip (陳協佳) (appointed on 22 September 2005)
Mr. Guan Tong (關彤) (appointed on 22 September 2005)

Supervisors:

Mr. Hao Zhihui (郝志輝) (re-elected on 1 January 2005)
Mr. Yuan Wei (袁偉) (re-elected on 1 January 2005)

Independent Supervisors:

Mr. Chang Zheng (常崢) (re-elected on 1 January 2005)
Mr. Zhu Gang (祝剛) (re-elected on 1 January 2005)

After the resignation of Professor Xiao Zhouji (蕭灼基教授) and Ms. Zhao Xiuying (趙秀英) as Independent Non-executive Directors of the Company in September 2005, Mr. Chan Yip Kai Philip (陳協佳) and Mr. Guan Tong (關彤) were appointed as Independent Non-executive Directors of the Company in September 2005 such that the number of Independent Non-executive Directors of the Company maintained at three.

There is a provision in the Company's Articles of Association for a maximum term of three years when the Company appoints its directors. All present directors of the Company were appointed for three years and continue in office.

Directors' and Supervisors' Service Contracts

Each of the directors and the supervisors of the Company has entered into a service contract with the Company. Particulars of these contracts, except as indicated are in all material respect identical and are set out below:

(i) Each contract (except for Mr. Chan Yip Kai Philip (陳協佳) and Mr. Guan Tong (關彤)) is for an initial term of three years commencing on 1 January 2005 and thereafter subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed for three years.

(ii) The service contracts of Mr. Chan Yip Kai Philip (陳協佳) and Mr. Guan Tong (關彤) are for an initial term of three years commencing on 22 September 2005 and, unless terminated by either party giving not less than one month's prior written notice to the other, thereafter subject to the approval of the shareholders' meeting of Company, may be renewed for three years.

The remunerations of the directors and supervisors of the Company for the year ending 31 December 2006 have not been fixed and that the board of directors of the Company was being authorized to fix the remunerations of the directors and supervisors on the basis of prevailing market rate.

The emoluments of each of the directors and supervisors of the Company are as follows:

The emoluments of the executive directors of the Company for the year ended 31 December 2005 were as follows:

	RMB
Mr. Wang Shuxin	637,294
Ms. Zheng Dan	234,084
Mr. Xie Kehua	225,995

The emoluments of the non-executive directors of the Company for the year ended 31 December 2005 were as follows:

	RMB
Mr. Feng Enqing	34,000
Mr. Liu Zhenyu	30,000
Mr. Xie Guangbei	30,000

The emoluments of the independent non-executive directors of the Company for the year ended 31 December 2005 were as follows:

	RMB
Professor Xian Guoming	30,000
Mr. Chan Yip Kai Philip (appointed on 22 September 2005)	31,170
Mr. Guan Tong (appointed on 22 September 2005)	5,000
Professor Xiao Zhuoji (resigned on 22 September 2005)	–
Ms. Zhao Xiuying (resigned on 22 September 2005)	–

Directors' and Supervisors' Service Contracts *(Continued)*

The emoluments of the supervisors and independent supervisors of the Company for the year ended 31 December 2005 were as follows:

	RMB
Mr. Hao Zhihui	177,444
Mr. Yuan Wei	39,137
Mr. Chang Zheng	20,000
Mr. Zhu Gang	20,000

(i) each of the directors and the supervisors of the Company was entitled to out-of-pocket expenses reasonably incurred during his/her term of office; and

(ii) the directors and the supervisors of the Company were not entitled to any bonus.

Directors' and Supervisors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which any of the directors, the supervisors of the Company or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of its independent non-executive directors, namely Professor Xian Guoming, Mr. Chan Yip Kai Philip and Mr. Guan Tong, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers the independent non-executive directors to be independent.

Biographical Details of Directors, Supervisors, Chief Executive Officer, Company Secretary and Qualified Accountant

Brief biographical details of the directors, the supervisors, Chief Executive Officer, the company secretary and qualified accountant of the Company are set out on pages 17 to 20 of this annual report.

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 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					
Directors	**Personal** (Note)	**Family**	**Corporate**	**Other**	**Total**	**Percentage of the issued share capital**
Mr. Xie Kehua	9,000,000	–	–	–	9,000,000	1.48%

Note: All represented domestic shares

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures *(Continued)*

Save as disclosed in this paragraph, as at 31 December 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 Rules 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.

Directors' and Supervisors' Rights to Acquire Shares

At no time during the year was the Company or its subsidiaries 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 31 December 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 (Note 1)	38.36%
Dai Shi Hua	Beneficial owner (Note 2)	32,180,000	5.28%

Notes:

1. All represented domestic shares.

2. All represented H shares.

Save as disclosed above, as at 31 December 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.

Completion of Placing

On 7 June 2005, all the conditions to the Placing Agreement entered into between the Company and Sun Hung Kai International Limited ("SHK") for the placing of new placing H shares (the "Placing") by SHK as placing agent at a price of HK$0.161 per new Placing H share were fulfilled and therefore completion took place.

Pursuant to an announcement dated 8 June 2005 and issued in accordance with the requirements of the GEM Listing Rules, 231,000,000 new Placing H shares were allotted to a total of 15 placees. Following the Placing, the share capital structure of the Company comprises 331,000,000 H shares and 279,000,000 domestic shares. The 331,000,000 H shares comprise the original 100,000,000 H shares in issue before the Placing, 210,000,000 new H shares issued under the Placing and 21,000,000 sale H shares converted from equal number of domestic shares held by Tianjin TEDA International Incubator pursuant to the Provisional Administrative Measures for the Reduction of State-owned Shares and the Raising of the Social Security Fund promulgated by the State Council of the People's Republic of China on 12 June 2001.

Dealings in the new Placing H shares commenced at 9:30 a.m. on 10 June 2005.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed during the year.

Competing Interests

During the year ended 31 December 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.

Major Customers and Suppliers

The percentage of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

–	the largest supplier*	88%
–	five largest suppliers combined	91%

* The largest supplier being Guangdong Fulilong Compound Fertilizers Company Limited, which becomes a subsidiary of the Company since 30 December 2005.

Sales

–	the largest customer	6%
–	five largest customers combined	19%

Connected Transactions

Significant related party transactions entered by the Group during the year ended 31 December 2005, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in Note 33 to the accompanying financial statements.

Major acquisition and disposal

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 Bioengineering Company Limited ("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 Group's share of audited net assets of approximately RMB2,837,000, representing for 70% of the equity interests of Tianjin Yisheng as at 31 August 2005, a gain of approximately RMB663,000 was recorded.

The above disposal, which was completed on 15 September 2005, constituted a discloseable transaction to the Company pursuant to the GEM Listing Rules and 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. Upon completion of the disposal, the Company does not hold any equity interest in Tianjin Yisheng and Tianjin Yisheng ceased to be a subsidiary of the Company.

Acquisition

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 pursuant to which the Company conditionally agreed to subscribe for the subscription capital in Fulilong by way of cash injection.

The consideration of RMB32.5 million is 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.

The above acquisition, which was completed on 30 December 2005, constituted a very substantial acquisition to the Company pursuant to the GEM Listing Rules and a circular containing details of the transaction was dispatched to the Shareholders of the Company on 11 November 2005 in accordance with the GEM Listing Rules. Upon completion, the Company's interest in Fulilong represented a 51% interest in the registered capital of Fulilong as enlarged by the subscription. Accordingly, Fulilong becomes a subsidiary of the Company and the financial results of Fulilong have been consolidated in the accounts of the Company.

Share Option Scheme

Pursuant to the Company's share option scheme (the "Scheme") conditionally approved by a resolution of the shareholders of the Company dated 25 May 2002, the Company may grant options to full-time key employees of the Group to subscribe H Shares in the Company subjected to the terms and conditions stipulated therein. The Scheme is conditional on (i) the China Securities Regulatory Commission or other relevant government authorities in the PRC granting approval of the Scheme and any options which may be granted thereunder and the issuing of the new shares upon an exercise of the options granted under the Scheme; and (ii) the GEM Listing committee of the Stock Exchange granting approval of the Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Scheme.

Summary of details of the Scheme is as follows:

- Purpose — To give incentives and rewards to selected employees and to keep them in the Group in order to maintain steady long-term development of the Group

Major acquisition and disposal *(Continued)*

Share Option Scheme *(Continued)*

• Participants	Full-time key employees including any executive directors of the Company and its subsidiaries who have been working for the Company or its subsidiaries for one or over one year and have shown good or outstanding performance for employees who are PRC nationals and have taken up any options to subscribe for the Company's H shares, they shall not be entitled to exercise the options until: (i) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H shares or any laws and regulations with similar effects have been abolished or removed, and (ii) The China Securities Regulatory Committee or other relevant government authorities in the PRC have been approved the new issue of shares upon the exercise of any options which may be granted under the Scheme No options had been granted by the Company under the Scheme since its adoption.
• Total number of ordinary shares available for issue	10,000,000 H Shares
• Percentage of the issued share capital that it represents as at the date of the annual report	3% of issued H shares
• Maximum entitlement of each participant	1% of the H Shares in issue at the date grant in any 12-month period (including both exercised and outstanding options).
• Period within which the securities must be taken up under an option	10 years commencing on the date of grant
• Minimum period for which an option must be held before it can be exercised	Not applicable
• Amount payable on acceptance of the option	HK$10 on acceptance of the option offer
• Period within which payments/calls/loans must be made/repaid	Not applicable

Major acquisition and disposal *(Continued)*

Share Option Scheme *(Continued)*

•	Basis of determination of Shares as the exercise price	The higher of (i) the closing price of the H stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day, (ii) the average closing prices of the H Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceeding the date of offer and (iii) the nominal value of a H Share.
•	The remaining life of the Scheme	The Scheme remains in force until 24 May 2012 unless otherwise terminated under the terms of the Scheme.

During the year ended 31 December 2005, none of the directors or the supervisors or employees of the Company or other participants of the Scheme was granted with Options to subscribe for the H Shares of the Company.

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 (previously known as "the Hong Kong Society of 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. Chan Yip Kai Philip and Mr. Guan Tong. Five meetings were held during the current financial year, including the meeting held for the review of the financial statements for the year ended 31st December, 2005.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 22 to 28 of this annual report.

Auditors

PricewaterhouseCoopers tendered their resignation as auditors of the Group on 30 November 2005 as a result of the failure by both parties in reaching a consensus on the auditors' remuneration for the year ended 31 December 2005. The financial statements of the Group for the three years ended 31 December 2004 were audited by PricewaterhouseCoopers.

Horwath Hong Kong CPA Limited was appointed on 30 November 2005 to fill the casual vacancy arising on the resignation of PricewaterhouseCoopers, and holds office until the conclusion of the forthcoming annual general meeting of the Company.

The financial statements of the Group for the year ended 31 December 2005 were audited by Horwath Hong Kong CPA Limited. A resolution will be submitted to the annual general meeting to re-appoint Horwath Hong Kong CPA Limited, as auditors of the Company.

On behalf of the Board
Wang Shuxin
Chairman

Tianjin, the PRC, 15 March 2006

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TO THE SHAREHOLDERS OF
TIANJIN TEDA BIOMEDICAL ENGINEERING COMPANY LIMITED

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 39 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations, which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

Chan Kam Wing, Clement
Practising Certificate number P02038

Hong Kong, 15 March 2006

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	**2005**	2004
		RMB	RMB
			(Restated)
Turnover	4(a)	**205,031,866**	58,645,974
Cost of sales		**(173,701,093)**	(37,685,256)
Gross profit		**31,330,773**	20,960,718
Other revenue	4(a)	**7,784,038**	11,209,349
Distribution and selling expenses		**(19,532,334)**	(17,769,213)
Administrative expenses	4(a)(ii)	**(18,319,829)**	(26,463,398)
Research and development expenses		**(1,286,831)**	(3,616,494)
Operating loss		**(24,183)**	(15,679,038)
Finance costs	5	**(4,116,835)**	(3,013,371)
Amortisation of goodwill on consolidation	14	**–**	(303,419)
Negative goodwill on acquisition of a subsidiary	29	**2,046,605**	–
Gain on disposal of a subsidiary	30	**663,161**	–
Loss before taxation	6	**(1,431,252)**	(18,995,828)
Taxation	7(a)	**(244,496)**	(82,496)
Loss for the year		**(1,675,748)**	(19,078,324)
Attributable to:			
Equity holders of the Company	8	**772,746**	(15,546,137)
Minority interests		**(2,448,494)**	(3,532,187)
		(1,675,748)	(19,078,324)
Profit/(loss) per share	10	**0.15 cents**	(3.89) cents

The notes on pages 46 to 85 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	Note	2005 RMB	2004 RMB (Restated)
Assets and liabilities			
Non-current assets			
Property, plant and equipment	12	**41,487,154**	19,162,176
Proprietary technologies	13	**1,408,290**	3,739,956
Goodwill on consolidation	14	**3,367,001**	3,367,001
Investment in associate	16	**24,810,805**	–
Trade receivables	18(c)	**4,794,540**	5,861,951
Other receivables	19(a)	**867,488**	1,431,488
		76,735,278	33,562,572
Current assets			
Inventories	17	**31,147,537**	18,042,311
Trade receivables	18	**63,189,887**	28,145,683
Prepayments and other receivables	19(b)	**17,577,591**	11,107,177
Amounts due from related parties	20	**2,848,008**	1,759,306
Restricted bank deposit	22	**–**	25,043,950
Cash and bank balances		**16,767,411**	5,994,744
		131,530,434	90,093,171
Current liabilities			
Trade payables	23	**20,907,603**	13,803,980
Other payables and accruals		**29,152,253**	13,070,678
Government grants received in advance		**1,402,008**	1,402,008
Amounts due to related parties	20	**5,792,949**	1,637,234
Short-term bank borrowings	24	**51,500,000**	58,800,000
Current portion of finance lease payable	25	**346,816**	346,816
		109,101,629	89,060,716
Net current assets		**22,428,805**	1,032,455
Total assets less current liabilities carried forward		**99,164,083**	34,595,027

The notes on pages 46 to 85 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	Note	2005 RMB	2004 RMB (Restated)
Total assets less current liabilities brought forward		**99,164,083**	34,595,027
Non-current liabilities			
Finance lease payable	25	**(1,290,878)**	(1,290,878)
Net assets		**97,873,205**	33,304,149
Equity			
Capital and reserves			
Share capital	26	**61,000,000**	40,000,000
Share premium		**75,089,571**	62,031,951
Capital reserve		**2,541,404**	2,541,404
Accumulated losses		**(73,257,471)**	(74,030,217)
Equity attributable to equity holders		**65,373,504**	30,543,138
Minority interests		**32,499,701**	2,761,011
Total equity		**97,873,205**	33,304,149

The notes on pages 46 to 85 form part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	**2005**	2004
		RMB	RMB
Assets and liabilities			
Non-current assets			
Property, plant and equipment	12	**7,770,566**	8,747,303
Interests in subsidiaries	15	**100,817,687**	55,176,549
Other receivables	19(a)	**867,488**	1,431,488
		109,455,741	65,355,340
Current assets			
Inventories	17	**2,535,676**	3,738,674
Trade receivables	18	**–**	294,852
Prepayments and other receivables	19(b)	**6,923,554**	3,921,074
Amounts due from related parties	20	**2,995,502**	2,055,928
Restricted bank deposits	22	**–**	25,043,950
Cash and bank balances		**9,393,959**	1,667,318
		21,848,691	36,721,796
Current liabilities			
Trade payables	23	**605,022**	141,042
Other payables and accruals		**6,832,503**	6,099,822
Amounts due to related parties	20	**1,197,234**	1,487,234
Short-term bank borrowings	24	**47,000,000**	54,000,000
Current portion of finance lease payable	25	**346,816**	346,816
		55,981,575	62,074,914
Net current liabilities		**(34,132,884)**	(25,353,118)
Total assets less current liabilities		**75,322,857**	40,002,222
Non-current liabilities			
Finance lease payable	25	**(1,290,878)**	(1,290,878)
Net assets		**74,031,979**	38,711,344

The notes on pages 46 to 85 form part of these financial statements.

BALANCE SHEET

AS AT 31 DECEMBER 2005

	Note	**2005**	2004
		RMB	RMB
Equity			
Capital and reserves			
Share capital	26	**61,000,000**	40,000,000
Share premium	27	**75,089,571**	62,031,951
Capital reserve	27	**(2,312,483)**	(2,312,483)
Accumulated losses	27	**(59,745,109)**	(61,008,124)
Total equity		**74,031,979**	38,711,344

The notes on pages 46 to 85 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

	Share capital (Note 26) RMB	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Attributable to equity holders of the Company RMB	Minority interests (Notes 29 & 30) RMB	Total RMB
Balance as at 31 December 2003	**40,000,000**	**62,031,951**	**2,541,404**	**(58,484,080)**	**46,089,275**	**6,293,198**	**52,382,473**
Loss for the year	–	–	–	(15,546,137)	(15,546,137)	(3,532,187)	(19,078,324)
Balance as at 31 December 2004	**40,000,000**	**62,031,951**	**2,541,404**	**(74,030,217)**	**30,543,138**	**2,761,011**	**33,304,149**
Placing of new H shares	21,000,000	13,057,620	–	–	34,057,620	–	34,057,620
Acquisition of a subsidiary	–	–	–	–	–	33,402,971	33,402,971
Disposal of a subsidiary	–	–	–	–	–	(1,215,787)	(1,215,787)
Profit/(loss) for the year	–	–	–	772,746	772,746	(2,448,494)	(1,675,748)
Balance as at 31 December 2005	**61,000,000**	**75,089,571**	**2,541,404**	**(73,257,471)**	**65,373,504**	**32,499,701**	**97,873,205**

The notes on pages 46 to 85 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 RMB	2004 RMB
Operating activities			
Cash generated from/(used in) operations	28(a)	**13,143,791**	(22,420,805)
Income tax paid		**(244,496)**	(82,496)
Interest paid		**(4,116,835)**	(3,003,724)
Interest received		**754,993**	771,606
Net cash generated from/(used in) operating activities		**9,537,453**	(24,735,419)
Investing activities			
Acquisition of a subsidiary, net of cash acquired	29	**(28,541,800)**	–
Disposal of a subsidiary	30	**(958,347)**	–
Purchase of property, plant and equipment		**(17,834,430)**	(5,223,055)
Purchase of proprietary technologies		**(24,000)**	(1,216,660)
Proceeds from disposal of property, plant and equipment		**292,222**	840,894
Decrease in restricted bank deposit		**25,043,950**	–
Net cash used in investing activities		**(22,022,405)**	(5,598,821)
Financing activities			
Issue of share capital		**34,057,620**	–
Additions of short-term bank borrowings		**48,000,000**	54,800,000
Repayments of short-term bank borrowings		**(58,800,000)**	(32,700,000)
Capital injection by minority shareholders		**–**	1,325,875
Net cash generated from financing activities		**23,257,620**	23,425,875
Net increase/(decrease) in cash and cash equivalents		**10,772,668**	(6,908,365)
Cash and cash equivalents at beginning of year		**5,994,744**	12,912,756
Effect of foreign exchange rate changes		**–**	(9,647)
Cash and cash equivalents at end of year		**16,767,412**	5,994,744
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**16,767,412**	5,994,744

The notes on pages 46 to 85 form part of these financial statements.

(EXPRESSED IN RENMINBI DOLLARS)

1. Group information and principal activities

Tianjin TEDA Biomedical Engineering Company Limited (the "Company") was established on 8 September 2000 in the People's Republic of China ("PRC") as a joint stock company with limited liability. On 18 June 2002, the Company's H shares were listed on the Hong Kong Growth Enterprise Market (the "GEM"). Consequently on 24 March 2003, the Company's legal status became that of a Sino-foreign joint stock company with limited liability. The Company and its subsidiaries are collectively referred to as the "Group".

The principal activities of the Company are investment holding, research, development and commercialization of medical and diabetic health food products and fertilizer products. The activities of the subsidiaries are set out in Note 15 below.

2. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The applicable HKFRSs are set out below and the 2004 comparatives have been restated, as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenues
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

The adoption of new or revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 33, 37 and HKAS Int 27 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 28, 33, 37 and HKAS Int 27 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures as detailed in notes 20 and 33.

– HKAS 38 had no material effect on the Group's policy. The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

The major effects on adoption of the other HKFRSs are summarised as follows:

(a) Amortisation of positive and negative goodwill (HKFRS 3 – Business combinations and HKAS 36 – Impairment of assets)

In prior periods:

– positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the profit and loss account until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1 January 2001 was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the profit and loss account as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill had been allocated exceeds its recoverable amount. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately on the profit and loss account as it arises. Further details of these new policies are set out in note 3(d) to the financial statements.

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(a) Amortisation of positive and negative goodwill (HKFRS 3 – Business combinations and HKAS 36 – Impairment of assets) *(continued)*

The new policy in respect of the amortisation of positive goodwill has been applied prospectively after 1 January 2005 in accordance with the transitional arrangements under HKFRS3. The accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date. The adoption of this new policy also reduced the amortisation of goodwill of RMB303,419 during current year as compared with last year.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in the profit and loss account on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on these consolidated financial statements as there was no negative goodwill deferred as at 31 December 2004.

(b) Financial instruments (HKAS 32 – Financial Instruments: Disclosure and Presentation and HKAS 39 – Financial Instruments: Recognition and Measurement)

In the current year, the Group has applied HKAS 32 and HKAS 39. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Unquoted equity investments for which fair value cannot be measured reliably are stated at cost less impairment. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". "Other financial liabilities" are carried at amortised cost using the effective interest method.

The application of HKAS 39 has had no material effect on the recognition and measurement of financial assets and financial liabilities of the Group.

The Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective, to these financial statements. The group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these HKFRSs would have a significant impact on its result of operation and financial position.

(EXPRESSED IN RENMINBI DOLLARS)

2. Adoption of new and revised Hong Kong Financial Reporting Standards *(continued)*

(b) Financial instruments (HKAS 32 – Financial Instruments: Disclosure and Presentation and HKAS 39 – Financial Instruments: Recognition and Measurement) *(continued)*

		Effective for accounting periods on or after
HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2006
HK (IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease	1 January 2007

3. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with HKFRSs, 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 principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

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 RMB73,257,471 as at 31 December 2005. 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 confirmed its intention to extend and commit banking facility of up to RMB100 million to the Company. Drawdowns from this facility will be subject to the bank's normal approval procedures. As at 31 December 2005, about RMB53 million of these facilities still remain unused. Subsequent to year end, the Company received RMB30 million of new loan against this facility in January 2006. Consequently, the directors have prepared the 2005 financial statements on the going concern basis.

(b) Group accounting

(i) Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

A subsidiary is a company in which the Group, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating polices; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The Group's investments in foreign investment enterprises in the PRC are in the form of a sino-foreign equity joint venture. The profit sharing ratios and share of net assets are in proportion to their equity interests as set out in the foreign investment contracts. Investments in these foreign investment enterprises are accounted for as subsidiaries as the Group controls their boards of directors and is in a position to exercise control over the financial and operating policies of the enterprises.

3. Principal accounting policies *(continued)*

(b) Group accounting *(continued)*

(i) Consolidation (continued)

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the loss for the year between minority interests and the equity shareholders of the Company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

3. Principal accounting policies *(continued)*

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at costs, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhead costs, is charged to profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset.

3. Principal accounting policies *(continued)*

(e) Property, plant and equipment *(continued)*

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Buildings	5% – 14%
Plant and machinery	7% – 33%
Motor vehicles	20%
Furniture, fixtures and equipment	20%

Renovations and improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss account.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at costs. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to fixed assets when it is completed and ready for its intended use.

(f) Proprietary technologies

Expenditures for acquisition of proprietary technologies, either separately or as part of a business combination, are recognised as assets only if it is probable that the future economic benefits that are attributable to the assets will flow to the Group and the costs of the assets can be measured reliably; otherwise, they are charged to the profit and loss account in the period in which they are incurred.

Proprietary technologies acquired as part of business combination are stated at their fair values at the date of acquisition less accumulated amortisation and any impairment losses. Proprietary technologies acquired separately are stated at cost less accumulated amortisation and any impairment losses.

Proprietary technologies are amortised using the straight-line method over their estimated useful lives of 5 years.

(g) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

3. Principal accounting policies *(continued)*

(h) Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase of materials computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is determined by reference to the anticipated sales proceeds of items sold in the ordinary course of business less estimated selling expenses after the balance sheet date or to management estimates based on prevailing market conditions.

(j) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a know amount of cash and are subject to an insignificant risk of changes in value.

3. Principal accounting policies *(continued)*

(j) Financial instruments *(continued)*

(iii) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised in the profit and loss account over the term of the borrowings using the effective interest rate method.

(iv) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(k) Leases

(i) Finance leases

Leases that substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the lease period.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

(l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence of non-occurrence of one or more future events are only disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. Principal accounting policies *(continued)*

(m) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(n) Translation of foreign currencies

The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

(o) Government subsidy

Government subsidy is recognised when received and when there is a reasonable assurance that the Group will comply with the conditions attached with it, if any.

In relevant instances, grants relating to income may be deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected costs of bonus payments are recognised as liabilities when the Group has present legal or constructive obligations as a result of services rendered by employees and reliable estimates of the obligations can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

3. Principal accounting policies *(continued)*

(p) Employee benefits *(continued)*

(iii) Pension costs

The Group has various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The Group's contributions to the defined contribution plans are expensed as incurred.

(q) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(r) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. For sales under which the sales consideration is receivable in instalments ("instalment sale receivable"), the sales price is the present value for the consideration, determined by discounting the instalments receivable at an imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

Service income is recognised as services are rendered.

Other revenue from sale of intangible assets is recognised on the transfer of risk and rewards of the title to the asset, and it is probable that the economic benefit associated with the transaction will flow to the Group.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segmentation is the primary reporting format and geographical segmentation is the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, operating assets and bank balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

(t) Use of estimate

The preparation of these financial statements in conformity with HKFRSs requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(EXPRESSED IN RENMINBI DOLLARS)

4. Turnover, revenue and segment information

(a) Revenue recognised during the year is as follows:

	2005 RMB	2004 RMB
Sale of goods		
– Medical and health products	**48,916,107**	39,044,649
– Fertilizer products (Note (i))	**156,115,759**	19,601,325
Total turnover	**205,031,866**	58,645,974
Other revenue		
– Proceed from sale of right to use Group's proprietary technology (Note (ii))	**–**	7,752,813
– Consultancy fee on distribution of certain of the Group's products (Note (iii))	**–**	1,691,550
– Bad debts recovery	**1,000,000**	–
– Over provision written back		
Rent	**3,075,120**	–
Social welfare	**2,227,533**	–
– Interest income	**754,993**	771,606
– Others	**726,392**	993,380
	7,784,038	11,209,349
Total revenues	**212,815,904**	69,855,323

Notes:

(i) Revenue from sale of fertilizer products include one major sale of raw materials of about RMB nil (2004: RMB15.7 million) to Xinyang Jindi Compound Fertilizer Co. Ltd. ("Xinyang") (Note 18(b)).

(ii) On 2 December 2004, the Group sold the right to use certain of its proprietary technology restricted within the Southeast Asia region to Brilliant Rise Development Limited ("BRDL"). The related fee of approximately RMB7.8 million, net of business tax, had been recognised as other revenue in 2004. However, BRDL has defaulted on its promised repayment schedule and in light of the uncertainty of the recovery of the debt, full provision has been made and charged to administrative expenses.

(iii) During 2004, the Group allowed an enterprise to distribute certain of its products for two years ending 30 June 2006. In connection with this distribution, the Group provided certain consultancy services. The related fees of RMB nil and RMB1,691,550, net of business tax, were recognised as other revenue for the years ended 31 December 2005 and 2004 respectively.

(iv) In respect of transactions described in (i) to (iii) above, the Directors confirm that they have been transacted with independent unrelated third parties.

(EXPRESSED IN RENMINBI DOLLARS)

4. Turnover, revenue and segment information *(continued)*

(b) Primary reporting format – business segments

The Group's main business segments are analysed below. There is no sale or other transaction between the business segments.

(i) 2005 segment analysis:

	Medical and health products RMB	Distribution of fertilizer products RMB	Total RMB
Segment revenue	**48,916,107**	**156,115,759**	**205,031,866**
Segment profit	**1,053,132**	**4,665,078**	**5,718,210**
Unallocated income			**4,618,849**
Unallocated costs			**(10,361,242)**
Operating loss			**(24,183)**
Finance costs			**(4,116,835)**
Negative goodwill on acquisition of a subsidiary (Note 29)	**–**	**2,046,605**	**2,046,605**
Gain on disposal of a subsidiary (Note 30)	**663,161**	**–**	**663,161**
Loss before taxation			**(1,431,252)**
Taxation			**(244,496)**
Loss for the year			**(1,675,748)**
Segment assets	**74,681,649**	**130,736,055**	**205,417,704**
Unallocated assets			**2,848,008**
Total assets			**208,265,712**
Segment liabilities	**13,306,780**	**42,773,144**	**56,079,924**
Unallocated liabilities			**54,312,583**
Total liabilities			**110,392,507**
Amortisation of proprietary technologies (Note 13)	**981,600**	**1,666**	**983,266**
Provision for doubtful debts (Note 6)	**803,046**	**–**	**803,046**
Capital expenditure (Note 12)	**2,017,987**	**15,816,443**	**17,834,430**
Depreciation (Note 6)	**3,078,284**	**172,607**	**3,250,891**
Loss on disposal of property, plant and equipment (Note 6)	**181,936**	**–**	**181,936**
Inventory obsolescence and write-off (Note 6)	**85,543**	**–**	**85,543**
Proprietary technology expenditure (Note 13)	**24,000**	**–**	**24,000**

(EXPRESSED IN RENMINBI DOLLARS)

4. Turnover, revenue and segment information *(continued)*

(b) Primary reporting format – business segments *(continued)*

(ii) 2004 segment analysis:

	Medical and health products RMB	Distribution of fertilizer products RMB	Total RMB
Segment revenue	49,482,392	19,601,325	69,083,717
Segment loss	(12,538,238)	(49,235)	(12,587,493)
Unallocated income			771,606
Unallocated costs			(3,863,151)
Operating loss			(15,679,038)
Finance costs			(3,013,371)
Amortisation of goodwill in acquisition (Note 14)	(303,419)		(303,419)
Loss before taxation			(18,995,828)
Taxation			(82,496)
Loss for the year			(19,078,324)
Segment assets	98,911,780	23,082,769	121,994,549
Unallocated assets			1,724,194
Total assets			123,718,743
Segment liabilities	(23,013,085)	(11,699,943)	(34,713,028)
Unallocated liabilities			(55,638,566)
Total liabilities			(90,351,594)
Amortisation of proprietary technologies (Note 13)	930,140	–	930,140
Provision for doubtful debts (Note 6)	7,962,440	–	7,962,440
Capital expenditure (Note 12)	4,764,747	2,226,136	6,990,883
Depreciation (Note 6)	2,518,074	13,960	2,532,034
Loss on disposal of property, plant equipment (Note 6)	30,065	–	30,065
Inventory obsolescence and write-off (Note 6)	1,167,101	–	1,167,101
Proprietary technology expenditure (Note 13)	1,516,660	–	1,516,660

(EXPRESSED IN RENMINBI DOLLARS)

4. Turnover, revenue and segment information *(continued)*

(c) Secondary reporting format – geographical segments

No geographical segment information is presented because all the sales activities of the Group are conducted in the PRC.

5. Finance costs

	2005	2004
	RMB	RMB
Interest expense on short-term bank borrowings	**4,116,835**	3,013,371

6. Loss before taxation

Loss before taxation is stated after crediting and charging the following:

	2005	2004
	RMB	RMB
Crediting		
Negative goodwill on acquisition of a subsidiary	**2,046,605**	–
Exchange gain, net	**–**	9,647
Charging		
Amortisation of goodwill (Note 14)	**–**	303,419
Amortisation of proprietary technologies (Note 13)	**983,266**	930,140
Auditors' remuneration	**976,000**	1,102,677
Provision for doubtful debts		
– Other receivables (Note 4(a)(ii))	**540,000**	7,800,000
– Trade receivables	**263,046**	162,440
Cost of inventories sold	**173,701,093**	37,685,256
Depreciation:		
Leased property, plant and equipment	**232,058**	232,058
Owned property, plant and equipment	**3,018,833**	2,299,976
Inventory obsolescence and write-off	**85,543**	1,167,101
Legal and professional consulting service fees	**1,363,424**	996,734
Loss on disposal of property, plant and equipment, net	**181,936**	30,065
Operating lease rentals – land and buildings	**1,649,292**	1,440,052
Pension costs	**759,963**	801,989
Staff costs other than pension costs (including emoluments of Directors and Supervisors)	**7,315,189**	12,726,890

(EXPRESSED IN RENMINBI DOLLARS)

7. Taxation

(a) Enterprises income tax ("EIT")

Company:

In 2003, the Company changed its tax status to that of a Foreign Investment Enterprise ("FIE"). In accordance with the relevant tax regulations, as a production FIE located in TEDA, 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 income tax during its actual operational period in TEDA. The Company has not provided for any EIT (2004: nil) since the tax loss brought forward exceeds the taxable income for the year.

Subsidiaries:

Alpha, being a production FIE located in TEDA, is also eligible for all the benefits enjoyed by the Company as described above. Year 2005 is Alpha's fourth profit-making year, consequently EIT has been provided at 7.5% (2004: nil) of taxable income for the year.

Wantai and Yisheng, being limited companies incorporated in the PRC, are subject to the statutory 30% EIT and 3% local income tax. Both Wantai and Yisheng have not provided for any EIT since neither has any taxable income for the year (2004: nil).

TEDAX[2] and Xinxing, being limited liability companies in Beijing High and New Technology Development Provisional Zone, are entitled to a concessing EIT rate of 15% and shall also be entitled to exemption from income tax for three years commencing from the first operating year followed by a 50% reduction for the next three years thereafter. TEDAX[2] has been operating for more than 6 years. Therefore it is subject to EIT and local income tax at a rate of 15% (2004: 15%). Year 2005 is the fourth operating year for Xinxing. Therefore it is subject to EIT and local income tax at a rate of 7.5% (2004: nil). TEDAX[2] and Xinxing have not provided for any EIT since they have no taxable income for the year (2004: nil).

STEDA, being a non-production FIE incorporated in PRC, is subjected to the statutory 30% EIT and 3% local income tax. STEDA has not provided for any EIT since it has no taxable income for the year (2004: nil).

Fulilong was exempted from EIT in the PRC as the company was qualified as a welfare enterprise as approved by the Guangdong Local Tax Bureau during the three years ended 31 December 2004. In the opinion of the directors, Fulilong has complied with the qualification requirements of a welfare enterprise during the year ended 31 December 2005 and accordingly Fulilong should also be exempted from EIT for the year.

The taxation charge on the Group's loss before taxation differs from the theoretical amount that would arise using the statutory taxation rate in the PRC as follow:

	2005 **RMB**	2004 RMB
Loss before taxation	**(1,431,252)**	(18,995,828)
Calculated at statutory rate of 33% (2004: 33%)	**(472,313)**	(6,268,623)
Income not subject to tax	**(935,095)**	–
Expenses not deductible for taxation purposes	**–**	2,410,888
Effect of tax exemption	**(416,795)**	(163,686)
Tax rate differential	**(300,547)**	2,328,220
Tax losses not recognised	**2,369,246**	1,610,705
Taxation charge	**244,496**	82,496

(EXPRESSED IN RENMINBI DOLLARS)

7. Taxation *(continued)*

(b) Deferred taxation

At 31 December 2005, the Group had the following respective estimated unused tax losses, which will expire as follows:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Year of expiry				
2006	**7,621,000**	**7,666,000**	7,621,000	7,666,000
2007	**7,899,000**	**6,364,000**	7,899,000	6,364,000
2008	**22,698,000**	**18,544,000**	22,698,000	18,544,000
2009	**16,052,000**	**13,427,000**	16,052,000	13,427,000
2010	**8,809,000**	–	–	–
	63,079,000	**46,001,000**	54,270,000	46,001,000

No deferred tax assets has been recognised (2004: nil) due to the unpredictability of future profit streams.

8. Profit/(loss) attributable to equity holders of the Company

The profit/(loss) attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB1,263,015 (2004: loss of RMB13,967,988).

9. Dividend

No dividend has been paid or declared by the Company since its establishment.

10. Profit/(loss) per share

The calculation of profit/(loss) per share is based on the Group's profit attributable to equity holders of RMB772,746 (2004: loss of RMB15,546,137), divided by the weighted average number of shares issued during the year of 517,945,205 (2004: 400,000,000) shares.

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

(EXPRESSED IN RENMINBI DOLLARS)

11. Emoluments of Directors, Supervisors and employees

(a) Directors' and Supervisors' emoluments

The aggregate amounts of emoluments payable to Directors and Supervisors of the Company during the year are as follows:

	2005	2004
	RMB	RMB
Fees	**196,170**	290,000
Salaries, housing and other allowances	**1,145,715**	1,463,849
Discretionary performance bonuses	**81,600**	–
Pension	**90,639**	62,130
	1,514,124	1,815,979

The number of Directors and Supervisors whose emoluments fell within the following bands:

	2005	2004
Nil – RMB1,040,000 (equivalent to Nil – HK$1,000,000)	**13**	14

(EXPRESSED IN RENMINBI DOLLARS)

11. Emoluments of Directors, Supervisors and employees *(continued)*

(a) Directors' and Supervisors' emoluments *(continued)*

Details of emoluments of individual Directors and Supervisors are set out as below:

	2005	2004
	RMB	RMB
Executive Directors:		
Mr Wang Shuxin	**637,294**	634,342
Ms Zheng Dan	**234,084**	348,184
Mr Xie Kehua	**225,995**	224,708
Mr Gu Hanqing	**N/A**	137,000
Non-executive directors:		
Mr Feng Enqing	**34,000**	30,000
Mr Liu Zhunyu	**30,000**	30,000
Mr Xie Guangbei	**30,000**	30,000
Independent non-executive directors:		
Professor Xian Guoming	**30,000**	30,000
Mr Chan Yip Kai Philip	**31,170**	N/A
Mr Guan Tong	**5,000**	N/A
Professor Xiao Zhuoji	**N/A**	100,000
Ms Zhao Xiuying	**N/A**	30,000
	1,257,543	1,594,234
Supervisors:		
Mr Hao Zhihui	**177,444**	146,568
Mr Yuan Wei	**39,137**	35,177
Mr Chang Zheng	**20,000**	20,000
Mr Zhu Gang	**20,000**	20,000
	256,581	221,745
	1,514,124	1,815,979

Note: (N/A) Not Directors during the respective years.

(EXPRESSED IN RENMINBI DOLLARS)

11. Emoluments of Directors, Supervisors and employees *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2004: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	RMB	RMB
Salaries, housing and other allowances	**1,097,124**	1,277,429

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Nil – RMB1,040,000 (equivalent to Nil – HK$1,000,000)	**2**	2

(c) During the year, no emoluments were paid by the Group to the Directors, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2004: nil).

None of the Directors and Supervisors waived any emoluments during the year (2004: nil).

(EXPRESSED IN RENMINBI DOLLARS)

12. Property, plant and equipment

Group

	Buildings RMB	Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures & equipment RMB	Construction in progress RMB	Total RMB
Cost						
At 31 December 2003	5,237,823	9,481,007	4,014,492	2,865,699	62,057	21,661,078
Additions	1,271,545	2,296,267	971,050	671,238	1,780,783	6,990,883
Transfer	–	75,012	–	–	(75,012)	–
Disposals	(279,439)	(181,301)	(710,274)	(55,105)	–	(1,226,119)
Reclassification	(3)	59,183	132,284	(191,464)	–	–
At 31 December 2004	6,229,926	11,730,168	4,407,552	3,290,368	1,767,828	27,425,842
Additions	–	528,229	1,165,786	647,755	15,492,660	17,834,430
Disposals	–	(633,931)	(319,036)	(52,890)	–	(1,005,857)
Acquisition of a subsidiary	3,553,720	17,888,416	2,012,123	383,864	221,543	24,059,666
Disposal of a subsidiary	–	(18,550)	(273,577)	(521,380)	–	(813,507)
At 31 December 2005	**9,783,646**	**29,494,332**	**6,992,848**	**3,747,717**	**17,482,031**	**67,500,574**
Accumulated depreciation						
At 31 December 2003	1,543,735	2,153,004	1,324,309	1,065,743	–	6,086,791
Charge for the year	676,467	799,691	515,091	540,785	–	2,532,034
Disposals	(47,970)	(21,404)	(272,404)	(13,381)	–	(355,159)
Reclassification	247,167	5,145	(226,193)	(16,389)	–	–
At 31 December 2004	2,419,399	2,936,706	1,330,803	1,576,758	–	8,263,666
Charge for the year	518,753	1,513,756	743,317	475,065	–	3,250,891
Write back on disposal	–	(335,074)	(145,650)	(50,975)	–	(531,699)
Acquisition of subsidiary	1,600,537	11,957,894	1,403,851	220,775	–	15,183,057
Disposal of subsidiary	–	(6,756)	(56,311)	(89,428)	–	(152,495)
At 31 December 2005	**4,538,689**	**16,066,526**	**3,276,010**	**2,132,195**	**–**	**26,013,420**
Net book value						
At 31 December 2005	**5,244,957**	**13,427,806**	**3,716,838**	**1,615,522**	**17,482,031**	**41,487,154**
At 31 December 2004	3,810,527	8,793,462	3,076,749	1,713,610	1,767,828	19,162,176

Note:

(1) The Group's buildings are held in the PRC under medium-term leases. A subsidiary of the Group is in the process of applying for the land use right certificate of buildings with a net book value of approximately RMB2 million (2004: nil).

(2) At 31 December 2005, the net book value of property, plant and equipment pledged as security for certain of the Group's banking facilities amounted to RMB2 million (2004: RMB2.4 million).

(3) At 31 December 2005, the net book value of property, plant and equipment held by the Group under a finance lease amounted to RMB1.6 million (2004: RMB1.8 million).

(EXPRESSED IN RENMINBI DOLLARS)

12. Property, plant and equipment *(continued)*

Company

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures & equipment	Construction in progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost						
At 31 December 2003	2,048,637	4,849,481	1,487,742	1,308,334	62,057	9,756,251
Additions	247,711	2,249,267	288,868	111,338	12,955	2,910,139
Transfer	–	75,012	–	–	(75,012)	–
Disposals	(279,439)	(100,100)	(556,273)	–	–	(935,812)
At 31 December 2004	2,016,909	7,073,660	1,220,337	1,419,672	–	11,730,578
Additions	–	32,916	717,617	24,482	–	775,015
Disposals	–	(604,080)	(188,997)	–	–	(793,077)
As at 31 December 2005	**2,016,909**	**6,502,496**	**1,748,957**	**1,444,154**	**–**	**11,712,516**
Accumulated depreciation						
At 31 December 2003	591,125	673,138	541,987	530,668	–	2,336,918
Charge for the year	159,587	389,971	228,968	208,649	–	987,175
Disposals	(47,970)	(20,444)	(272,404)	–	–	(340,818)
At 31 December 2004	702,742	1,042,665	498,551	739,317	–	2,983,275
Charge for the year	19,284	982,449	279,348	96,291	–	1,377,372
Written back on disposal	–	(308,209)	(110,488)	–	–	(418,697)
As at 31 December 2005	**722,026**	**1,716,905**	**667,411**	**835,608**	**–**	**3,941,950**
Net book value						
At 31 December 2005	**1,294,883**	**4,785,591**	**1,081,546**	**608,546**	**–**	**7,770,566**
At 31 December 2004	1,314,167	6,030,995	721,786	680,355	–	8,747,303

Note:

(1) The Company's buildings are held in the PRC under a medium-term lease.

(2) At 31 December 2005, the net book value of property, plant and equipment of the Company pledged as security for certain of the Group's banking facilities amounted to RMB nil (2004: RMB2.4 million).

(3) At 31 December 2005, the net book value of property, plant and equipment held by the Company under a finance lease amounted to RMB1.6 million (2004: RMB1.8 million).

(EXPRESSED IN RENMINBI DOLLARS)

13. Proprietary technologies

	Group 2005 RMB	2004 RMB
Cost		
At 1 January	**5,916,660**	4,400,000
Addition	**24,000**	1,516,660
Disposal of a subsidiary	**(1,524,000)**	–
At 31 December	**4,416,660**	5,916,660
Accumulated amortisation		
At 1 January	**2,176,704**	1,246,564
Charge for the year	**983,266**	930,140
Disposal of a subsidiary	**(151,600)**	–
At 31 December	**3,008,370**	2,176,704
Carrying value		
At 31 December	**1,408,290**	3,739,956

14. Goodwill on consolidation

Details of movements in goodwill on consolidation of the Group during the year are as follows:

	Group 2005 RMB	2004 RMB
Cost		
At 1 January	**4,938,247**	5,933,104
Arising from acquisition of additional equity interest in a subsidiary (Note 28(b))	**–**	(994,857)
Opening balance adjustment to eliminate accumulated amortisation	**(1,571,246)**	–
At 31 December	**3,367,001**	4,938,247
Accumulated amortisation		
At 1 January	**1,571,246**	1,267,827
Charge for the year	**–**	303,419
Opening balance adjustment to eliminate against cost	**(1,571,246)**	–
At 31 December	**–**	1,571,246
Carrying value at 31 December	**3,367,001**	3,367,001

14. Goodwill on consolidation *(continued)*

In 2004, goodwill was amortised on a straight line basis over 20 years. As explained further in Note 2(a), with effect from 1 January 2005 the Group no longer amortises goodwill. In accordance with the transitional provisional set out in HKFRS3, the accumulated amortisation of goodwill on 1 January 2005 has been eliminated against the cost of goodwill as at that date.

15. Interests in subsidiaries

	Company	
	2005	2004
	RMB	RMB
Unlisted investments, at cost	**54,958,195**	17,912,172
Amounts due from subsidiaries	**45,859,492**	37,491,115
Amount due to a subsidiary	**–**	(226,738)
	100,817,687	55,176,549

The amounts due from/(to) subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

The following is a list of the Group's subsidiaries at 31 December 2005 all of which are incorporated and operating in the PRC:

	Date of incorporation and legal entity status	Principal activities	Registered capital (RMB'000)	Attributable equity interest held 2005	2004
Tianjin Alpha HealthCare Products Co., Ltd. ("Alpha")	15 August 1994, joint-venture enterprise	Manufacture and distribution of diabetic health food and related products	3,600	**75%**	75%
Tianjin Wan Tai Bio-Development Co., Ltd. ("Wantai")	3 September 2001, limited liability company	Trading in biomedical equipment and biomaterials	5,000	**100%** (Note (i))	97% (Note (i))
Beijing TEDAX² Medical Engineering Co., Ltd. ("TEDAX²")	17 December 2001, limited liability company	Investment holding and holder of proprietary technologies	1,400	**100%** (Note (ii))	99.7% (Note (ii))
Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Xinxing")	23 June 1995, limited liability company	Manufacture and distribution of biomedical equipment	1,000	**100%** (Note (iii))	99.7% (Note (iii))

15. Interests in subsidiaries *(continued)*

	Date of incorporation and legal entity status	Principal activities	Registered capital	Attributable equity interest held	
			(RMB'000)	**2005**	2004
Shandong TEDA Bio-Engineering Co., Ltd. ("STEDA")	18 September 2004, joint-venture enterprise	Engaging in the research & development, production and sale of biological fertilizer, combined fertilizer, mixed fertilizer and plant fertilizer including the application of related technology	18,000	**51%**	51%
Guangdong Fulilong Compound Fertilizers Company Limited ("Fulilong")	20 August 1996, limited liability company	Manufacture and sale of compound fertilizers	16,327	**51%**	– (Note (iv))
Tianjin Yisheng Bioengineering Co Ltd. ("Yisheng")	17 February 2003, limited liability company	Manufacture and distribution of diabetic health food products, biomedical equipment and biomaterials and rendering of related consultation services	5,000	**–**	70% (Note (v))

None of the subsidiaries has issued any debt securities during the year.

Note:

(i) 10% (2004: 7%) equity interest held indirectly by the Company.

(ii) 10% (2004: 9.7%) equity interest held indirectly by the Company.

(iii) Held indirectly by the Company.

(iv) Fulilong becomes a subsidiary of the Company since 30 December 2005 (Note 29).

(v) Yisheng ceased to be a subsidiary of the Company on 15 September 2005 (Note 30).

16. Interests in an associate

	Group 2005 RMB	Group 2004 RMB
Share of net assets	**2,135,704**	–
Amount due from an associate	**22,675,101**	–
	24,810,805	–

Particulars of the associate are as follows:

	Date of incorporation and legal entity status	Principal activities	Registered capital (RMB'000)	Equity interest attributable to the Group 2005	Equity interest attributable to the Group 2004
Shaanxi Xing Fu Fertilizer Company Limited ("Shaanxi Xing Fu")	25 May 2004, limited liability company	Manufacture and sale of highly concentrated nitro-compound fertilizers	5,000	**20.4%**	–

On 25 May 2004, Fulilong contributed cash of RMB2,000,000 for the establishment of Shaanxi Xing Fu, representing 40% equity interest in Shaanxi Xing Fu. The other 60% equity interest is held by Shaanxi Xinghua Chemistry Company Limited, a company established in the PRC with limited liability. Primarily, all the products of Shaanxi Xing Fu were sold to Fulilong.

17. Inventories

	2005 Group RMB	2005 Company RMB	2004 Group RMB	2004 Company RMB
Raw materials	**13,308,804**	**255,651**	4,985,880	1,190,037
Work-in-progress	**4,089,115**	**1,045,687**	3,513,546	715,992
Finished goods	**12,251,742**	**1,320,222**	9,324,634	1,888,589
Packaging materials	**4,655,740**	**25,148**	1,267,563	25,148
	34,305,401	**2,646,708**	19,091,623	3,819,766
Less: Provision for inventory obsolescence	**(3,157,864)**	**(111,032)**	(1,049,312)	(81,092)
	31,147,537	**2,535,676**	18,042,311	3,738,674

At 31 December 2005 and 2004, all obsolete inventories of the Group and the Company have been fully provided for. Other inventories were stated at net realisable value.

(EXPRESSED IN RENMINBI DOLLARS)

18. Trade receivables

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Trade receivables	**76,575,241**	**4,848,297**	37,765,047	2,051,658
Less: Receivable after one year, classified as non-current assets (Note (c))	**(4,794,540)**	**–**	(5,861,951)	–
Trade receivables, current assets	**71,780,701**	**4,848,297**	31,903,096	2,051,658
Less: Provision for doubtful debts	**(8,590,814)**	**(4,848,297)**	(3,757,413)	(1,756,806)
	63,189,887	**–**	28,145,683	294,852

Note:

(a) Except for TEDAX[2] and Xinxing where credit terms are subject to individual agreements, the other group companies and the Company generally grant credit terms of 120 days to major customers and 90 days to others. TEDAX[2] and Xinxing usually grant credit terms ranging from 90 days to 1 year based on individual contract terms.

(b) An ageing analysis of year end current trade receivables is as follows:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Within 3 months	**32,542,825**	**–**	23,093,371	255,116
Between 3 to 6 months	**9,306,977**	**–**	2,342,608	70,682
Between 6 to 12 months	**17,192,257**	**2,376,649**	1,752,883	–
Over 1 year	**12,738,642**	**2,471,648**	4,381,059	1,725,860
	71,780,701	**4,848,297**	31,569,921	2,051,658

Trade receivables at 31 December 2004 due within 3 months included about RMB15.7 million due from Xinyang which was received on 8 April 2005 (Note 4(a)(i)).

(EXPRESSED IN RENMINBI DOLLARS)

18. Trade receivables *(continued)*

Note: *(continued)*

(c) Trade receivables, non-current

	Group	
	2005	2004
	RMB	RMB
Instalment sale receivable	**6,237,361**	6,823,831
Less: Current portion	**(1,442,821)**	(961,880)
Non-current portion	**4,794,540**	5,861,951

The instalment sale receivable is related to a sale of a set of equipment to a hospital during 2003. The repayment schedule of the instalment sale receivable is as follows:

	Group	
	2005	2004
	RMB	RMB
Within one year	**1,500,000**	1,000,000
In the second year to fifth year, inclusive	**5,600,000**	7,100,000
	7,100,000	8,100,000
Future finance income on instalment sale receivable, including its respective output VAT portion of RMB240,340	**(862,639)**	(1,276,169)
Present value of instalment sale receivable	**6,237,361**	6,823,831

The present value of the instalment sale receivable is analysed as follows:

	Group	
	2005	2004
	RMB	RMB
Within one year	**1,442,821**	961,880
In the second year to the fifth year, inclusive	**4,794,540**	5,861,951
	6,237,361	6,823,831

(EXPRESSED IN RENMINBI DOLLARS)

19. Prepayments and other receivables

Prepayments and other receivables include the following balances:

(a) In December 2002, the Company entered into an agreement with BCT Global Development Limited ("BCT") to market Alpha's diabetic health products in Southeast Asia. The fee for this service of Hong Kong Dollars (HK$) 3 million was paid to another third party ("PAL") which itself is related to BCT. Any expenditure incurred by BCT for the Company's marketing activities would be reimbursed by PAL accordingly on behalf of the Company.

During 2003, the related marketing plan was terminated. The prepaid fee is being refunded to the Company in installments. During 2005, RMB nil (2004: RMB700,000) was recovered leaving a balance of about RMB2.1 million (2004: RMB2.1 million) at 31 December 2005. Subsequent to the year end, RMB0.6 million has been collected. The Directors are of the opinion that the remaining balance will be collected without significant loss to the Group and that another RMB0.6 million will be collected by the end of 2006. On this basis, RMB1.2 million (2004: RMB0.6 million) has been grouped under current assets and the remaining RMB0.9 million (2004: RMB1.4 million) as non-current receivables.

The Directors confirmed that both BCT and PAL are independent unrelated third parties.

(b) In December 2002, living allowances of RMB300,000 were paid to Ms. Zheng Dan, a Director of the Company, for a three-year period ended 2005 following her relocation from Tianjin to Beijing. At 31 December 2005, the unamortised balance of the living allowances is RMB nil (2004: RMB100,000).

(c) On 15 September 2005, the Company entered into an equity transfer agreement, pursuant to which the Company agreed to dispose of its entire 70% of the equity interests in Yisheng to Mr. Lei Yu Hua, an independent third party, at a consideration of RMB3.5 million. The amount remained outstanding at 31 December 2005. Subsequent to year end the amount was fully settled.

20. Balances with related parties

		2005		2004	
		Group	**Company**	Group	Company
	Note	**RMB**	**RMB**	RMB	RMB
Due from					
Ultimate holding company		**2,846,002**	**2,995,502**	1,724,194	1,723,694
Minority shareholders of subsidiaries		**–**	**–**	–	299,128
Directors	21	**2,006**	**–**	35,112	33,106
		2,848,008	**2,995,502**	1,759,306	2,055,928
Due to					
Sole investor of ultimate holding company		**852,948**	**852,948**	852,948	852,948
Ultimate holding company		**494,286**	**344,286**	494,286	344,286
A minority shareholder of a subsidiary		**4,295,715**	**–**	–	–
Directors and Supervisors	21	**150,000**	**–**	290,000	290,000
		5,792,949	**1,197,234**	1,637,234	1,487,234

All balances due from/to related parties are unsecured, non-interest bearing and have no fixed repayment terms.

(EXPRESSED IN RENMINBI DOLLARS)

21. Due from/to Directors and Supervisors

Details of the amounts due from Directors of the Group and the Company as at 31 December 2005 and 2004 are set out below:

2005

	Group		**Company**	
	Amount outstanding at 31 December RMB	**Maximum amount outstanding during the year ended 31 December RMB**	**Amount outstanding at 31 December RMB**	**Maximum amount outstanding during the year ended 31 December RMB**
Mr. Wang Shuxin	–	–	–	–
Professor Gu Hanqing	–	–	–	–
Mr. Xie Kehua	–	–	–	–
Ms. Zheng Dan	**2,006**	**2,006**	–	–
	2,006		–	

2004

	Group		Company	
	Amount outstanding at 31 December RMB	Maximum amount outstanding during the year ended 31 December RMB	Amount outstanding at 31 December RMB	Maximum amount outstanding during the year ended 31 December RMB
Mr. Wang Shuxin	16,291	23,662	16,291	23,662
Professor Gu Hanqing	16,815	16,815	16,815	16,815
Mr. Xie Kehua	–	5,000	–	–
Ms. Zheng Dan	2,006	2,414	–	–
	35,112		33,106	

(EXPRESSED IN RENMINBI DOLLARS)

21. Due from/to Directors and Supervisors *(continued)*

Details of the amounts due to Directors and Supervisors of the Group and the Company as at 31 December 2005 and 2004 are set out below:

	Group and Company	
	2005	2004
	RMB	RMB
Professor Xiao Zhuoji	**–**	100,000
Mr. Feng Enqing	**–**	30,000
Mr. Liu Zhenyu	**–**	30,000
Mr. Xie Guangbei	**–**	30,000
Professor Xian Guoming	**–**	30,000
Professor Zhao Xiuying	**–**	30,000
Mr. Zhu Gang	**–**	20,000
Mr. Chang Zheng	**–**	20,000
Ms. Zheng Dan	**150,000**	–
	150,000	290,000

The amounts due from Directors mainly represent travelling advances. The amounts due to Directors and Supervisors mainly represent payables in relation to Directors' fees and salaries. The balances with them are unsecured, non-interest bearing and have no fixed repayment terms.

22. Restricted bank deposit

The restricted bank deposit is a fixed bank deposit pledged to secure a short-term bank borrowing of RMB nil (2004: RMB22,000,000) described in Note 24 below and for the letter of credit facilities granted by the same bank.

23. Trade payables

Generally, the credit terms received from suppliers of the Group and the Company is 90 days. An ageing analysis of year end trade payables is as follows:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Within 3 months	**18,043,023**	**4,555**	13,064,271	24,822
Between 3 to 6 months	**1,767,156**	**51,112**	341,058	4,000
6 months to one year	**92,791**	**1,535**	288,125	1,694
Over one year	**1,004,633**	**547,820**	110,526	110,526
	20,907,603	**605,022**	13,803,980	141,042

Trade payables at 31 December 2004 due within 3 months include RMB15 million due to Fulilong, in relation to the Group's sales to Xinyang (Note 4(a)(i)) before netting off other advance payments of RMB9 million paid to Fulilong. On 4 April 2005, the RMB15 million due to Fulilong was settled.

The Directors confirm that Xinyang is an independent unrelated third party and that Fulilong and Xinyang are also independent of each other and not related.

(EXPRESSED IN RENMINBI DOLLARS)

24. Short-term bank borrowings

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Short term bank borrowings:				
– secured against bank balances (Note 22)	**–**	**–**	22,000,000	22,000,000
– secured against fixed assets (Note (i))	**3,500,000**	**–**	1,000,000	–
– unsecured (Note (ii))	**48,000,000**	**47,000,000**	35,800,000	32,000,000
	51,500,000	**47,000,000**	58,800,000	54,000,000

Note:

(i) Secured against property, plant and equipment with net book value of about RMB2 million (2004: RMB2.4 million) (Note 12).

(ii) Unsecured loans are guaranteed as follows:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Guarantees were provided by:				
– the Company (Note 35)	**1,000,000**	**–**	3,800,000	N/A
– Tianjin TEDA Guarantee Co. Ltd.	**47,000,000**	**47,000,000**	32,000,000	32,000,000
	48,000,000	**47,000,000**	35,800,000	32,000,000

(iii) All short-term bank borrowings bore annual interest ranging from 5.6% to 7.3% (2004: from 5.3% to 7.3%)

25. Finance lease payable

At 31 December 2005 the Group's and the Company's finance lease liability is repayable as follows:–

	Group and Company	
	2005	2004
	RMB	RMB
Within one year	**346,816**	346,816
In the second year	**187,686**	187,686
In the third year to the fifth year inclusive	**626,585**	626,585
After the fifth year	**476,607**	476,607
Obligation under finance lease not wholly repayable within five years	**1,637,694**	1,637,694
Current portion of finance lease payable	**(346,816)**	(346,816)
Non-current portion of finance lease payable	**1,290,878**	1,290,878

Obligations under finance lease are payable by instalments from July 2003 to July 2011.

25. Finance lease payable *(continued)*

The reconciliation between the total minimum lease payments and the present value of finance lease obligation is as follows:

	Group and Company	
	2005	2004
	RMB	RMB
Total minimum lease payments		
Within one year	**489,230**	489,230
In the second year	**244,615**	244,615
In the third year to fifth year inclusive	**733,844**	733,844
After the fifth year	**489,230**	489,230
	1,956,919	1,956,919
Less: Interest portion of finance lease	**(319,225)**	(319,225)
Present value of finance lease obligation	**1,637,694**	1,637,694

26. Share capital

(a) The Company's issued and fully paid up capital comprise:

	2005		2004	
	Number (million)	**RMB (million)**	Number (million)	RMB (million)
Ordinary shares of RMB0.1 each:				
– Domestic shares	**279**	**28**	300	30
– "H" shares	**331**	**33**	100	10
	610	**61**	400	40

Domestic shares represent unlisted shares held by corporations in the PRC.

In June 2002, the Company issued 100 million "H" shares in the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

In June 2005, 231,000,000 new H shares were allotted at a price of HK$0.161 per share (the "Placing"). Following the Placing, the share capital structure of the Company comprises 331,000,000 H shares and 279,000,000 domestic shares. The 331,000,000 H shares comprise the original 100,000,000 H shares in issue before the Placing, 210,000,000 new H shares issued under the Placing and 21,000,000 H shares converted from equal number of domestic shares held by ultimate holding company pursuant to the State-owned Shares Reduction Regulations.

All domestic and "H" shares rank pari passu in all major aspects.

(b) No share options had been granted by the Company under its share option scheme (the "Scheme") since its adoption (2004: nil). At 31 December 2005, none of the Directors or Supervisors or employees or other participants of the Scheme had any rights to acquire the H Shares in the Company (2004: nil).

(EXPRESSED IN RENMINBI DOLLARS)

27. Reserves

	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Total RMB
The Company				
At 1 January 2004	62,031,951	(2,312,483)	(47,040,136)	12,679,332
Net loss for the year	–	–	(13,967,988)	(13,967,988)
At 31 December 2004	62,031,951	(2,312,483)	(61,008,124)	(1,288,656)
Placing of new H shares	13,057,620	–	–	13,057,620
Net profit for the year	–	–	1,263,015	1,263,015
At 31 December 2005	75,089,571	(2,312,483)	(59,745,109)	13,031,979

28. Consolidated cash flow statement

(a) Reconciliation of loss before taxation to net cash generated from/(used in) operations:

	2005 **RMB**	2004 RMB
Loss before taxation	**(1,431,252)**	(18,995,828)
Provision for doubtful debts	**803,046**	7,962,440
Provision for inventory obsolescence	**85,543**	501,704
Depreciation	**3,250,891**	2,532,034
Loss on disposal of property, plant and equipment	**181,936**	30,065
Negative goodwill released to income	**(2,046,605)**	–
Gain on disposal of a subsidiary	**(663,161)**	–
Interest expense	**4,116,835**	3,013,371
Interest income	**(754,993)**	(771,606)
Amortisation of proprietary technologies	**983,266**	930,140
Amortisation of goodwill on consolidation	**–**	303,419
Operating loss before working capital changes	**4,525,506**	(4,494,261)
Increase in inventories	**(3,255,580)**	(3,151,548)
Increase in trade receivables	**(790,357)**	(18,123,225)
Decrease/(increase) in prepayments and other receivables	**4,788,666**	(10,457,506)
Increase/(decrease) in amounts due from related parties	**(1,088,702)**	1,802,092
Decrease/(increase) in trade payables	**(8,359,248)**	11,603,109
Increase/(decrease) in other payables and accruals	**17,463,506**	(20,404)
Decrease/(increase) in amounts due to related parties	**(140,000)**	420,938
Gain generated from/(used in) operations	**13,143,791**	(22,420,805)

(EXPRESSED IN RENMINBI DOLLARS)

28. Consolidated cash flow statement *(continued)*

(b) Acquisition of additional equity interest in a subsidiary:

	2005	2004
	RMB	RMB
	(Note (i))	
Share of net assets acquired/(liabilities assumed)	**–**	994,857
Negative goodwill (Note 14)	**–**	(994,857)
Net cash outflow	**–**	–
Satisfied by cash	**–**	–

Note:

(i) Effective from 1 June 2004, the Group increased its interest in a subsidiary TEDA by 60% to 99.7%. The additional interest was acquired from the subsidiary's minority shareholders at zero consideration.

The value of assets acquired and liabilities assumed were based on book value of TEDA and its wholly owned subsidiary Xinxing together with necessary adjustments made by the Directors of the Company to reflect the fair value of the assets acquired, resulting in a negative goodwill of RMB994,857.

(c) Major non-cash transactions:

There were no other major non-cash transactions other than the additional equity interest in a subsidiary described in Note 28(b).

(EXPRESSED IN RENMINBI DOLLARS)

29. Acquisition of a subsidiary

On 30 December 2005, the Company acquired 51% interest in Guangdong Fulilong compound Fertilizers Company Limited, which is principally engaged in the manufacture and sale of compound fertilizers in the PRC. The acquired business did not contribute any turnover or profit to the Group for the year ended 31 December 2005.

Details of fair value of identifiable assets/(liabilities) acquired are as follows:

	2005 RMB
Property, plant and equipment	8,876,609
Investment in associate	24,810,805
Inventories	15,026,370
Trade receivables, prepayments and other receivables	44,183,444
Cash and bank balances	4,177,953
Trade payables, other payables and accruals	(21,110,137)
Amount due to a related party	(4,295,715)
Short-term bank borrowings	(3,500,000)
	68,169,329
Minority interest (49%)	(33,402,971)
Net assets acquired	34,766,358
Negative goodwill	(2,046,605)
Total consideration settled in cash	32,719,753

Cash flow on acquisition, net of cash acquired:

Cash and bank balances acquired	4,177,953
Cash consideration	(32,500,000)
Cost on acquisition of Fulilong	(219,753)
	(28,541,800)

(EXPRESSED IN RENMINBI DOLLARS)

30. Disposal of a subsidiary

On 15 September 2005, the Company entered into an equity transfer agreement, pursuant to which the Company agreed to dispose of its entire 70% equity interests in Tianjin Yisheng Bioengineering Co. Ltd. to Mr. Lei Yu Hua, an independent third party, at a cash consideration of RMB3.5 million.

Detail of net assets/(liabilities) disposed of are as follows:

	2005
	RMB
Property, plant and equipment	**661,012**
Proprietary technologies	**1,372,400**
Inventories	**5,091,180**
Trade receivables, prepayments and other receivables	**2,998,885**
Cash and bank balances	**958,347**
Trade payables, other payables and accruals	**(7,029,198)**
	4,052,626
Minority interest (30%)	**(1,215,787)**
	2,836,839
Gain on disposal of a subsidiary	**663,161**
Satisfied by consideration receivable	**3,500,000**

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

Cash and bank balances disposed of with the subsidiary	**(958,347)**

The subsidiary disposed of contributed approximately RMB7,885,000 to the Group's turnover and approximately RMB479,000 to the Group's loss for the year ended 31 December 2005.

31. Commitments

(a) Capital commitments

At 31 December 2005, the Group and the Company had the following significant capital commitments:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Authorised and contracted for				
– Acquisition of plant and machinery	**18,671,292**	**–**	–	–
– Acquisition of land use right	**–**	**–**	1,320,000	–
	18,671,292	**–**	1,320,000	–

(EXPRESSED IN RENMINBI DOLLARS)

(b) Operating lease commitments

At 31 December 2005, the Group and the Company had the following operating lease commitments:

(i) Non-cancellable operating lease agreements with independent third parties for rental of office premises or apartment as follows:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**585,971**	**–**	513,000	179,000
Later than one year and not later than five years	**1,921,403**	**–**	19,000	–
Over five years	**3,080,303**	**–**	–	–
Total future lease payments	**5,587,677**	**–**	532,000	179,000

(ii) Non-cancellable operating lease agreements, with related parties for the rental of office or production premises as follows:

	2005		2004	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**1,142,000**	**542,000**	1,142,000	542,000
Later than one year and not later than five year	**4,471,000**	**2,121,000**	4,566,000	2,166,000
More than five year	**–**	**–**	1,047,000	497,000
Total future lease payments	**5,613,000**	**2,663,000**	6,755,000	3,205,000

(iii) In respect of one of the leases included in the above analysis, the Group enjoys rent-free period up to 31 December 2004. Thereafter, the monthly rental will be determined based on prevailing market price. The above analysis of future minimum lease payments in respect of this lease is estimated with reference to the most comparable prevailing market rates on that basis. Such rent fee concession enjoyed by the Group amounted to about RMB380,000 in 2004.

32. Financial instruments

(a) Financial risk factors

The Group's principal financial instruments comprise cash and bank balances.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, liquidity risk and interest rate risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Credit risk

The Group has no significant concentration of credit risk. The carrying amounts of trade receivables included in the balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. No other financial assets carry a significant exposure to credit risk.

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, other liquid assets and the ability to close out market positions. The Group maintains sufficient bank balances and cash at the balance sheet date.

(iv) Fair value and cash flow interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk from its short-term bank borrowings is minimal.

(b) Fair value estimation

The fair values of bank balances and cash, trade and other receivables, trade and other payables are not materially different from their carrying accounts.

The carrying values of short term interest-bearing bank borrowings are estimated to approximate their fair values based on the nature or short term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(EXPRESSED IN RENMINBI DOLLARS)

33. Related party disclosures

(a) Transactions with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

Other than as disclosed elsewhere in the financial statements, during the year the Group and the Company had the following material transactions with related parties. In the opinion of the Directors, they were conducted in the ordinary course of the Group's business.

	2005	2004
	RMB	RMB
Purchases from Fulilong (Note 29)	**150,905,884**	18,608,250
Operating lease rental charged by TTII and its sole investor	**–**	894,744
Waiver of operating lease rental charged by TTII and its sole investor	**3,075,120**	–
Purchases of proprietary technologies/finished goods from a minority shareholder of a subsidiary	**–**	1,500,000

(b) Compensation of key management personnel of the Group

	2005	2004
	RMB	RMB
Short term employee benefits	**1,423,484**	1,753,849
Post-employment benefits	**90,640**	62,130
Total compensation paid to key management personnel	**1,514,124**	1,815,979

34. Ultimate holding company

The Directors regard Tianjin TEDA International Incubator ("TTII"), a state-owned enterprise established in the PRC and solely owned by TEDA State-owned Asset Administration Operation Company, as being the ultimate holding company.

35. Contingent liabilities

The Company guaranteed the banking facilities granted to certain of its subsidiaries amounting to RMB1 million (2004: RMB3.8 million).

36. Comparative figures

As further explained in note 2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified/restated to conform with the current year's presentation and accounting treatment.

37. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 15 March 2006.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2005 annual general meeting ("AGM") of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") will be held at 9th Floor, Block A2, Tianda High-Tech Park, No. 80 The 4th Avenue, TEDA, Tianjin, the People's Republic of China (the "PRC") at 9:00 a.m. on Monday, 8 May 2006 for the following purposes:

I. As ordinary resolutions:

1. To consider and, if thought fit, approve the Directors' Report of the Company for 2005;

2. To consider and, if thought fit, approve the Report of the Supervisory Committee of the Company for 2005;

3. To consider and, if thought fit, approve the audited consolidated accounts of the Company for the year ended 31 December 2005;

4. To consider and, if thought fit, approve that no final dividend is declared for 2005;

5. To consider and, if thought fit, approve the proposal of appointing Horwath Hong Kong CPA Limited as auditors of the Company for 2006 and authorize the Directors of the Company to fix their remuneration; and

6. To transact any other business.

II. As special resolutions:

1. To consider and, if thought fit, pass the following resolution as a special resolution:

"**THAT**:

(a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company (the "Board") during the Relevant Period (as defined in paragraph (f) below) of all the powers of the Company separately or concurrently to allot, issue and deal with Domestic Shares and/or H Shares of the Company be and is hereby approved;

(b) the approval in paragraph (a) above shall authorize the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares of the Company to be allotted and issued either during or after the end of the Relevant Period;

(c) the aggregate nominal value of Domestic Shares of the Company to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversation rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the Domestic Shares of the Company then in issue at the date of the passing of this resolution;

(d) the aggregate nominal value of H Shares of the Company to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversation rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the H Shares of the Company then in issue at the date of the passing of this resolution;

(e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;

(f) for the purpose of this special resolution:

"**Relevant Period**" means the period from the passing of this special resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;

(ii) the expiration of a period of twelve months following the passing of this special resolution; or

(iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

"**rights issue**" means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

(g) the Board be and is hereby authorized to make such amendments to the articles of association of the Company as it thinks fit so as to increase the issued share capital and to reflect the new capital structure of the Company as a result of the allotment and issuance of shares of the Company pursuant to the approval granted under paragraph (a) above."

2. To consider and, if thought fit, pass with or without modifications, the following resolution as a special resolution:

"**THAT**, subject to the requirement for filing for record with the Tianjin Administration of Industry and Commence of the People's Republic of China, the full stop of the last paragraph of Article 12 of the Articles of Association of the Company shall be deleted and substituted by the following sentence:–

"; sale of compound fertilizers, mixed fertilizers, chemical fertilizers, biological fertilizers and plant fertilizers; and research, development promotion and application of the technology of eco-agricultural chemical products.""

By order of the Board
Wang Shuxin
Chairman

Tianjin, the PRC
20 March 2006

Notes:

1. Any shareholders of the Company entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his, her or its behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, the proxy form of holder of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (the "Company's Share Registrar") not less than 48 hours before the time for holding the meeting or 48 hours before the time appointed for taking the poll.

3. In order to be valid, the proxy form of the holder of the Domestic Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the registered address of the Company not less than 48 hours before the time for holding the meeting or 48 hours before the time appointed for taking the poll.

4. Shareholders of the Company or their proxies shall produce documents of their proof of identity when attending the meeting.

5. The register of shareholders of the Company will be closed from 8 April 2006 to 8 May 2006 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant shares certificate must be lodged with the Company's Share Registrar not later than 7 April 2006 at 4:00 p.m. for registration.

6. Shareholders of the Company who intend to attend the meeting mentioned above should notify in writing of their attendance by sending such notice of the Company by hand, post or fax not later than 18 April 2006.

7. The registered address of the Company and the contact details of the Company are as follows:

   No. 12 Tai Hua Road, The 5th Avenue, TEDA, Tianjin, the People's Republic of China.
   Fax No.: (8622) 5981 6909