



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)

INTERIM REPORT 2006

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

HIGHLIGHTS

- For the six months ended 30 June 2006, turnover was increased by 85% from that of recorded in the corresponding period of last year and amounted to approximately RMB148,680,000.
- Gross profit increased by 30.9% from the corresponding period of last year to approximately RMB20,776,000.
- Gross profit margin decreased to approximately 14% which is much lower than that of 19.8% recorded in the corresponding period of last year. This was due to the increase of the fertilizer products from sale by Fulilong which is of lower gross profit margin of the fertilizer products.
- Loss attributable to equity holders amounted to approximately RMB2,062,000, representing a decrease of approximately 60.4% from that of recorded in the corresponding period of 2005.

HALF-YEARLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited half-yearly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2006, together with the comparative figures of the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the six months ended 30 June		For the three months ended 30 June	
		2006 (Unaudited) RMB	2005 (Unaudited) RMB	2006 (Unaudited) RMB	2005 (Unaudited) RMB
Turnover	3	148,680,245	80,186,370	55,213,011	63,076,593
Less: sales tax		(10,878)	(71,232)	(9,627)	(23,198)
Cost of sales		<u>(127,893,541)</u>	<u>(64,244,412)</u>	<u>(48,317,162)</u>	<u>(54,102,342)</u>
Gross profit		20,775,826	15,870,726	6,886,222	8,951,053
Other revenue		988,316	(411,717)	686,331	(408,339)
Distribution and selling expense		(11,456,959)	(11,054,970)	(5,895,730)	(5,265,613)
R&D and administrative expenses		<u>(7,626,539)</u>	<u>(7,611,090)</u>	<u>(3,072,027)</u>	<u>(3,253,908)</u>
Operating Profit/(loss)		2,680,644	(3,207,051)	(1,395,204)	23,193
Finance costs	4	(2,814,481)	(1,920,816)	(1,529,357)	(1,095,743)
Amortization of goodwill on consolidation		<u>(151,710)</u>	<u>(151,710)</u>	<u>(151,710)</u>	<u>(88,646)</u>
Loss before taxation	5	(285,547)	(5,279,577)	(3,076,271)	(1,161,196)
Taxation	6	<u>–</u>	<u>(84,707)</u>	<u>–</u>	<u>(72,301)</u>
Loss for the period		<u>(285,547)</u>	<u>(5,364,284)</u>	<u>(3,076,271)</u>	<u>(1,233,497)</u>
Attributable to:					
Equity holders of the Company		(2,061,774)	(5,220,054)	(2,163,135)	(1,257,036)
Minority interests		<u>1,776,227</u>	<u>(144,230)</u>	<u>(913,136)</u>	<u>23,539</u>
		<u>(285,547)</u>	<u>(5,364,284)</u>	<u>(3,076,271)</u>	<u>(1,233,497)</u>
Loss per share	7	<u>(0.3) cents</u>	<u>(1.23) cents</u>	<u>(0.3) cents</u>	<u>(0.28) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 (Unaudited) RMB	31 December 2005 (Audited) RMB
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment, net	8	70,260,688	41,487,154
Proprietary technologies		978,326	1,408,290
Goodwill on consolidation		3,215,291	3,367,001
Investment in associate		16,314,305	24,810,805
Trade receivable		4,794,540	4,794,540
Other receivable		867,488	867,488
		96,430,638	76,735,278
Current assets			
Inventories	9	29,940,420	31,147,537
Trade receivable		65,129,914	63,189,887
Prepayment and other receivables		10,600,206	17,577,591
Amounts due from related parties		2,848,008	2,848,008
Cash and bank balances		27,506,587	16,767,411
		136,025,135	131,530,434
Current liabilities			
Trade payable	10	18,986,270	20,907,603
Government grants received in advance		672,008	1,402,008
Other payables and accruals		8,209,242	29,152,253
Amounts due to related parties		1,347,234	5,792,949
Short-term bank borrowings		104,400,000	51,500,000
Current portion of finance lease payable		346,816	346,816
		133,961,570	109,101,629
Net current assets		2,063,565	22,428,805
Total assets less current liabilities carried forward		98,494,203	99,164,083
Non-current liabilities			
Finance lease payable		(1,290,878)	(1,290,878)
Net assets		97,203,325	97,873,205
Equity			
Capital and reserves			
Share capital	11	61,000,000	61,000,000
Share premium		74,801,321	75,089,571
Capital reserve		2,541,404	2,541,404
Accumulated losses		(75,319,245)	(73,257,471)
Equity attributable to equity holders		63,023,480	65,373,504
Minority interests		34,179,845	32,499,701
Total equity		97,203,325	97,873,205

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2006

	Share Capital		Share premium		Accumulated Losses		Capital reserve		Total	
	2006 RMB	2005 RMB	2006 RMB	2005 RMB	2006 RMB	2005 RMB	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Balance as at 1 January	61,000,000	40,000,000	75,089,571	62,031,951	(73,257,471)	(74,030,217)	2,541,404	2,541,404	65,373,504	30,543,138
Net profit/(loss) attributable to equity holders of the Company for the three months ended 31 March	-	-	-	-	101,361	(3,963,018)	-	-	101,361	(3,963,018)
Balance as at 31 March	61,000,000	40,000,000	75,089,571	62,031,951	(73,156,110)	(77,993,235)	2,541,404	2,541,404	65,474,865	26,580,120
Net profit/(loss) attributable to equity holders of the Company for the three months ended 30 June	-	-	(288,250)	-	(2,163,135)	(1,257,036)	-	-	(2,451,385)	(1,257,036)
Balance as at 30 June	<u>61,000,000</u>	<u>40,000,000</u>	<u>74,801,321</u>	<u>62,031,951</u>	<u>(75,319,245)</u>	<u>(79,250,271)</u>	<u>2,541,404</u>	<u>2,541,404</u>	<u>63,023,480</u>	<u>25,323,084</u>

CONDENSED CONSOLIDATED CASH STATEMENT (UNAUDITED)*For the six months ended 30 June 2006*

	For the six months ended 30 June	
	2006	2005
	<i>RMB</i>	<i>RMB</i>
Cash flows from operating activities		
Cash used in operation	(12,221,074)	(16,665,615)
Interests received	92,552	57,076
Interests paid	(2,413,458)	(1,993,467)
	<u>(14,541,980)</u>	<u>(18,602,006)</u>
Net cash used in operating activities		
Cash flows from investing activities		
Purchases of property, plant and equipment	(27,180,204)	(1,628,784)
Purchase of property technology	–	(324,000)
Sales of property, plant and equipment	11,360	183,900
	<u>(27,168,844)</u>	<u>(1,768,884)</u>
Net cash used in investing activities		
CASH FLOWS FINANCING ACTIVITIES		
Proceeds from short-term bank borrowing	104,400,000	70,290,000
Repayment of short-term bank borrowings	(51,500,000)	(46,800,000)
Payment of guarantee fee on bank borrowings	(450,000)	(359,000)
Proceeds from placing of new H shares	–	38,556,803
	<u>52,450,000</u>	<u>61,687,803</u>
Net cash used in financing activities		
NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES	10,739,176	41,316,913
CASH AND BANK BALANCES AT THE BEGINNING OF THE PERIOD	<u>16,767,412</u>	<u>5,994,744</u>
CASH AND BANK BALANCES AT THE END OF THE PERIOD	<u><u>27,506,587</u></u>	<u><u>47,311,657</u></u>

*Notes:***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 Company is an investment holding company. The principal activities of the Group are research, development and commercialization of medical and diabetic health food products and fertilizer products.

2. Basis of presentation

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

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

The financial statements have been prepared on a going concern basis, assuming that the Group will continue to operate as a going concern, notwithstanding the fact that the Group suffered accumulated losses of RMB75,319,245 as at 30 June 2006. The validity of the Group’s liability 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 extended and committed banking facility of up to RMB100 million to the Company. Drawdowns from this facility will be subject to the bank’s normal approval procedures. In January and April 2006, the Company received RMB53 million of new loan against this facility. Consequently, the Directors have prepared the unaudited half-yearly report for the six months ended 30 June 2006 on the going concern basis.

3. Turnover

The Group’s turnover is derived principally from the sales of fertilizer products and medical and health products.

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

	For the six months ended 30 June		For the three months ended 30 June	
	2006	2005	2006	2005
	RMB	RMB	RMB	RMB
Turnover				
Fertilizer products	129,441,050	55,417,708	48,695,954	51,678,113
Medical & health products	19,239,195	24,768,662	6,517,057	11,398,480
	<u>148,680,245</u>	<u>80,186,370</u>	<u>55,213,011</u>	<u>63,076,593</u>

4. Finance costs

	For the six months ended 30 June		For the three months ended 30 June	
	2006	2005	2006	2005
	RMB	RMB	RMB	RMB
Interest expense on bank loans and bank changes	2,814,481	1,920,816	1,529,357	1,095,743
	<u>2,814,481</u>	<u>1,920,816</u>	<u>1,529,357</u>	<u>1,095,743</u>

5. Loss before taxation

	For the six months ended 30 June	
	2006	2005
	RMB	RMB
Depreciation of property, plant and equipment	1,807,745	1,384,460
Amortization of intangible asset	137,560	491,800
Amortization of goodwill	151,710	151,710
	<u>151,710</u>	<u>151,710</u>

6. Taxation

(a) Enterprise income tax ("EIT")

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, Tianjin, the Peoples' Republic of China (the "PRC"), the Company is eligible to enjoy the concessionary EIT of 15%. It is further entitled to exemption from EIT for two years commencing from its first profit-making year after its offsetting prior years' losses, followed by a 50% reduction of EIT for the next three years thereafter. In addition, the Company shall enjoy exemption from 3% local EIT during its actual operational period in TEDA, Tianjin, the PRC. The Company has not provided for any EIT since the tax loss brought forward exceeds the taxable income for the period.

Tianjin Alpha HealthCare Products Co., Ltd. ("Alpha"), being a Sinoforeign joint-venture enterprise located in TEDA, Tianjin, the PRC is eligible for state EIT at a reduced rate of 15%. It is also entitled to exemption from state EIT for two years commencing from its first profit-making year after offsetting its prior years' losses, followed by a 50% reduction of state EIT for the next three years thereafter. In addition, Alpha is also entitled to exemption from 3% local EIT during its actual operational period in TEDA. The state EIT exemption period of Alpha ended in 2003 and the state EIT 50% reduction period of Alpha started on 1 January 2004 until 31 December 2006.

Tianjin Wan Tai Bio-Development Company Limited ("Wantai"), being limited company in the PRC, is subject to the statutory 30% EIT and 3% local EIT. Wantai has not provided for any EIT since it has no taxable income for the period under review.

Beijing TEDAX² Medical Engineering Company Limited ("TEDAX²") and Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Xinxing"), being limited liability companies established in Beijing High and New Technology Development Provisional Zone, Beijing, the PRC are entitled to a concessing EIT rate of 15% and shall also be entitled to exemption from EIT for three years commencing from the their operating year followed by a 50% reduction of EIT for the next three years thereafter. TEDAX² has been operating for more than 6 years. Therefore, it is subject to EIT and local EIT at a rate of 15%. Year 2006 is the fifth operating year for Xinxing. Therefore, it is subject to EIT and local income tax at a rate of 7.5%. TEDAX² and Xinxing have not provided for any EIT since they have no taxable income for the period under review.

Shangdong TEDA Bioengineering Co., Ltd ("STEDA"), being a non-production FIE incorporated in the PRC, is subject to the statutory 30% EIT and 3% local EIT. STEDA has not provided for any EIT since it has no taxable income for the period under review.

Fulilong was exempted from EIT as it 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 at the half-yearly 2006 and accordingly Fulilong should also be exempted from EIT for the half-yearly.

(b) *Income tax expense*

	For the six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Current Tax		
Hong Kong	Nil	Nil
Other Jurisdictions	Nil	12

The income tax charge in Hong Kong is Nil for the six months ended 30 June 2006 (June 2005: Nil) as the Company did not carry on any business in Hong Kong during the period. The income tax charge in the PRC is Nil for the six months ended 30 June 2006 (June 2005: RMB12,406).

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

	For the six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss) before tax	(286)	(5,128)
Tax calculated at the EIT rate of 33%	(94)	(1,692)
Tax rate differential	(1,657)	1,208
Effect of tax holiday exemption	–	–
Effect of the tax losses on consolidation	1,751	569
Tax effect of expenses that are not deductible in determining taxable profit	–	–
Tax expense for the period	<u>–</u>	<u>85</u>

7. Loss per share

For the six months ended 30 June 2006, the calculation of the loss per share is based on the Group's unaudited loss attributable to equity holders of RMB2,061,774 (June 2005: loss of RMB5,220,054), divided by the total number of shares issued by the Company of 610,000,000 shares (2005: 424,364,641 shares). Diluted profit per share is not presented as there is no dilutive potential shares during the half-yearly period of 2006.

8. Additions to property, plant and equipment

During the half-yearly period of 2006, the Group spent approximately RMB28,770,841 (2005: RMB625,107) on the acquisition of property, plant and equipment.

9. Trade receivable, current assets

The Group's trade receivable relates to sales of goods to third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivable.

	30 June 2006 (Unaudited) RMB	31 December 2005 (Audited) RMB
Trade receivable, current assets	79,571,904	71,780,701
Provision for doubtful accounts	<u>(14,441,990)</u>	<u>(8,590,814)</u>
Trade receivable, net	<u>65,129,914</u>	<u>63,189,887</u>

The aging analysis of trade receivable, current assets is as follows:

	30 June 2006 (Unaudited) RMB	31 December 2005 (Audited) RMB
Within 3 months	36,419,892	32,542,825
Over 3 months but within 6 months	22,524,328	9,306,977
Over 6 months	<u>20,627,684</u>	<u>29,930,899</u>
	<u>79,571,904</u>	<u>71,780,701</u>

10. Trade payable

The aging analysis of trade payable is as follows:

	30 June 2006 (Unaudited) RMB	31 December 2005 (Audited) RMB
Within 3 months	7,472,167	18,043,023
Over 3 months but within 6 months	6,551,690	1,767,156
Over 6 months	<u>4,962,413</u>	<u>1,097,424</u>
	<u>18,986,270</u>	<u>20,907,603</u>

11. Share capital

	30 June 2006		31 December 2005	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered	<u>610,000,000</u>	<u>61,000</u>	<u>610,000,000</u>	<u>61,000</u>
<i>Issued and fully paid:</i>				
Domestic shares of RMB0.1 each	279,000,000	27,900	279,000,000	27,900
H shares of RMB0.1 each	<u>331,000,000</u>	<u>33,100</u>	<u>331,000,000</u>	<u>33,100</u>
	<u>610,000,000</u>	<u>61,000</u>	<u>610,000,000</u>	<u>61,000</u>

12. Capital commitments

As at 30 June 2006, the Group had no significant capital commitments which were not provided for in the condensed consolidated financial statements of the Group.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Segmental information

The Group is organized into 2 main business segments: (1) biological fertilizers; (2) medical and health products.

The results of the Group segregated by segments for the six months ended 30 June 2006 and for the three months ended 30 June 2006 as compared with the same recorded in the corresponding periods in 2005 are analysed as follows:

	For the six months ended 30 June		For the three months ended 30 June	
	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Segment revenues				
Fertilizer products	129,441,050	55,417,708	48,695,954	51,678,113
Medical & health products	19,239,195	24,768,662	6,517,057	11,398,480
Segment results				
Fertilizer products	1,403,437	(358,561)	(3,962,844)	(70,592)
Medical & health products	(3,465,211)	(4,854,016)	1,799,709	(1,074,262)

Foreign currency risk

The Group has no significant foreign exchange risk since all of the sales of the Group are domestic sales denominated in Renminbi and majority of the payables to suppliers are also denominated in Renminbi. Minority of the payables to suppliers are denominated either in Hong Kong Dollar or United States Dollar, the exchange rates of which remained quite stable during the period under review.

Liquidity, financial resources and capital structure

During the period under review, the Group's primary source of fund was cash proceeds derived from banking facilities granted by PRC banks and the placing of the Company's new H shares in June 2005. As at 30 June 2006, the Group had bank and cash balances amounted to approximately RMB27,507,000 (31 December 2005: RMB16,767,000), short term bank borrowings of RMB104,400,000 (31 December 2005: RMB51,500,000). The bank borrowings are denominated in Renminbi and provided by various PRC banks in fixed interest rates within the range from 5.68% to 7.02% per annum (31 December 2005: 5.6% to 7.3%). The major portions of the bank borrowings in the sum of RMB30,000,000 and RMB25,000,000 will be matured on 19 January 2007 and 29 March 2007 respectively. The sum of RMB23,000,000 and RMB22,000,000 will be matured on 29 April 2007 and 20 June 2007, remaining portion of total bank borrowings will be matured on variable dates from 9 January 2007 to 22 May 2007.

As at 30 June 2006, the Group had total assets of approximately RMB232,456,000 (31 December 2005: RMB208,266,000) which were financed by current liabilities of approximately RMB133,962,000 (31 December 2005: RMB109,102,000), shareholders' equity of RMB63,023,000 (31 December 2005: RMB65,374,000) and minority interests of approximately RMB34,180,000 (31 December 2005: RMB32,500,000).

As at 30 June 2006 the Group's gearing ratio, defined as the ratio between the total bank borrowings and the total assets, was 0.45 (31 December 2005: 0.25). The liquidity ratio of the Group, represented by a ratio of the current assets over the current liabilities, was 1.02 (31 December 2005: 1.21).

Charges on the Group's assets and contingent liabilities

As at 30 June 2006, the building and the land use rights of the Company's subsidiaries of RMB2.5 million was pledged as security for granting of loans to the Company's subsidiaries by a PRC licensed bank.

The Company guaranteed the banking facilities granted to certain of its subsidiaries amounting RMB0.9 million (2005: RMB1.0 million).

Major acquisition and disposal

Major acquisition

In the half-yearly period of 2006, the Group did not make any major acquisition (2005: after the completion of the subscription of the enlarged 51% equity interests in Fulilong, Fulilong become a subsidiary of the Company).

Disposal

In the half-yearly period of 2006, the Group did not disposal of subsidiaries or affiliated companies (2005: the disposal of Tianjin Yisheng Bioengineering Company Limited (“Tianjin Yisheng”) was completed on 15 September 2005).

Staff cost information

For the six months ended 30 June 2006, the salary cost of the Group was approximately RMB6,109,000 (2005: RMB4,922,000). The total employees of the Group were increased from 396 (as at 30 June 2005) to 691 (as at 30 June 2006). The increase was due to the inclusion of the staff of Fulilong after the subscription. Salary of the employees was determined on the basis of their performance and the market trend.

Each of the executive directors and supervisors of the Company has entered into a service agreement with the Company. According to the service agreement, each director and each supervisor are entitled to receive an annual salary payable as specified in their service agreements respectively.

Treasury policy

Since there is no foreign exchange risk, the Group’s bank borrowings are denominated in Renminbi and usually renew for one year when they become matured. The cash derived from the placing of new H shares of the Company in June 2005 will be utilized according to the schedule of use of proceeds set out in the paragraph headed “Use of proceeds” pursuant to an announcement issued by the Company dated 8 June 2005. In the meantime, any surplus cash is placed with PRC licensed bank.

Business review

The Group is continually engaged in the research and development and Commercialization of fertilizer products and medical and health products.

For the six months ended 30 June 2006, turnover of the Group amounted to approximately RMB148,680,000, representing an increase of 85% from that of recorded in the corresponding period of last year. The increase is mainly due to the consolidation of the results from Guangdong Fulilong Compound Fertilizers Company Limited (“Fulilong”), a subsidiary of the Group since December 2005.

As the low gross profit margin of the fertilizer products from sale by Fulilong, the overall gross profit margin of the Group was decreased to approximately 14% which is much lower than that of 19.8% recorded in the corresponding period of last year. However, due to increase in sales turnover, the gross profit was increased to approximately RMB20,776,000, representing an increase of approximately 30.9% from that achieved in the corresponding period in 2005.

The Group has successfully achieved turnaround since third quarter of 2005. Loss attributable to equity holders was thus decreased by 60.4% to approximately RMB2,062,000 when compared with the same recorded in the corresponding period of last year.

As at 30 June 2006, major approximately 87% of the Group’s total turnover were derived from the sales of fertilizer products produced and distributed by Fulilong.

The Group's medical and health products include diabetic health food, medical equipments and intraocular lens products ("IOLs").

The diabetic health food and medical equipments under the brand name of "ALPHA" and "TEDA" contributed to remaining approximately 12.4% and 0.6% respectively to the Group's total turnover for six months ended 30 June 2006.

Fertilizer products

After the completion of the subscription of the enlarged 51% equity interest in Fulilong since December 2005, the Group has become a sizeable fertilizer manufacturer to capture the business of production and distribution of fertilizer production in PRC.

For the six months ended 30 June 2006, Fulilong recorded a total sales of approximately RMB129,441,000 of fertilizer products to various customers throughout the PRC. As at 30 June 2006, the total gross profit derived from the sale of fertilizer products amounted to approximately RMB12,603,000, representing an increase of 301% from that recorded in the corresponding period of 2005. It is expected that the sale of fertilizer products will be continually and steadily increased in the coming quarters of 2006 as the policy of the PRC central government continues to support and encourage of farmers to improve their productivity by using effective fertilizer products has been firm and continually carried out. As a result, the demand of compound fertilizers in the PRC market continues to steadily increase year by year.

Medical and health products

During the six months ended 30 June 2006, the total sales of diabetic health products by Alpha continued to record a new high of approximately RMB18,358,000 which is increased by approximately 25% when compared to the sale in the corresponding period of last year. The increase in sales was mostly contributed by the increase in sale of sugar free almond juice which is widely and generally accepted as one of the health drinks in the PRC market. The gross profit margin of "Alpha" products for the period under review maintained at about 45% for the six months ended 30 June 2006 (as at 30 June 2005: 48%).

For the coming quarters of 2006, the expected increase in sales will depend on the performance of sales of sugar free mooncakes and sugar free almond juice. This is the long term main objective for Alpha of achieving increased market share in the field of sugar free health food.

The Group continues to launch medical equipment under the "TEDA" brand name through its subsidiary, Beijing TEDAX² Medical Engineering Company Limited ("TEDAX²") and sold a series of new models of sleeping status monitoring equipment and multi-parameter equipment products through TEDAX². With a view to coping with the changing market situation, the process in altering the model of product lines has been smoothly undergoing. It is expected that the improvement in sale performance will be achieved in the coming quarters of 2006.

The Group has already gotten the ISO 13485:2003 and ISO 9001:2000 Medical Equipment Quality System (醫療器材質量體系) certification for its intraocular lens ("IOLs") products.

Tianjin Wan Tai Bio-development Company Limited ("Wan Tai") tries its best to set up more sales network of intraocular lens ("IOL") to expand and to develop the market channel all over the area in the PRC to position its IOLs products in order to cope with the keen competition in the PRC market.

Operation of a subsidiary

As at 30 June 2006, Fulilong continually owned five production lines located at Dongguan of Guangdong Province, the PRC and another one located at Xingping of Shaanxi Province, the PRC. The one in Xingping of Shaanxi Province firm adopts the advanced technology of “Melt Granulation Methods with High Tower”. The six production lines totally with an annual production capacity reach approximately 800,000 tones of fertilizer products. During the period under review, Guizhou Guihua project (貴州貴化項目) is smoothly under construction and is expected to commerce trial production by October 2006.

The Group is waiting for the approval of the application for three professional skill certification for production of fertilizer products and two of three certificates are advanced high tower technology and is expected to be completed in the coming quarters of 2006.

Currently, Fulilong concentrates on its sales of fertilizer products in Guangdong, Southern and Western China. The products are distributed to eight provinces, cities and autonomous regions in Southern China as well as to eleven provinces, cities and autonomous regions in Western China.

As at 30 June 2006, there was an increase by approximately 50% in the number of Fulilong’s sales team for promotion of fertilizer products over that as at 31 December 2005. With a view to supporting the Guizhou Guihua project (貴州貴化項目) to push the fertilizer products smoothly to the Western China market on time, Fulilong increased six wholesale channels with around 120 retail points closed to the Guizhou Guihua project (貴州貴化項目) in Guangxi. Fulilong also increased more than ten wholesale channels with around 200 retail points in the west of Guangdong as well as continued to expand the sales network in the PRC. As a result, the number of establishment of sale channels of Fulilong in Zhejiang, Jiangxi, Hunan Provinces, the PRC was continually and speedily increased.

In the future development process, Fulilong will deeply leverage on the existing production lines and sales channel of fertilizer products under the “Fulilong” brand to develop and to expand the market channel all over the area in the PRC and position its products as one of the best fertilizer products in the high-end market.

Distribution and selling

For the six months ended 30 June 2006, the Group’s distribution and selling expenses amounted to approximately RMB11,457,000, which is approximately 3.6% slightly higher than that incurred in the same period of last year (2005: RMB11,055,000). This was mainly due to the increase in distribution and selling expenses for fertilizer products.

Research and development and administration

For the six months ended 30 June 2006, the Group’s research and development and administration expenses amounted to approximately RMB7,627,000, which is slightly increased by approximately 0.2% from that recorded in the corresponding period of last year (2005: RMB7,611,000). The total employees of the Group were increased from 396 (as at 30 June 2005) to 691 (as at 30 June 2006). The increase was due to the inclusion of the staff of Fulilong after the subscription.

The Group continued firm to adopt its tight control policy for the purpose of cost reduction in order to increase its production efficiency and cost effectiveness.

Future outlook

On 25 June 2006, the Company, Wai Tai (a wholly-owned subsidiary of the Group) have entered into a Equity Transfer Agreement pursuant to which the Company, Wai Tai conditionally agreed to acquire the remaining 49% equity interest in Fulilong Compound Fertilizers Company Limited (“Fulilong”) from the other shareholders of Fulilong. Please refer to the section headed “Major acquisition and Connected Transaction” of this report for more details. The Directors believe that the acquisition of Fulilong’s remaining 49% equity interests provides the Group with a chance to capture the business opportunity of the fertilizer markets of the PRC by having an entire interest in a well established fertilizer manufacturer.

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

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

As at 30 June 2006, 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:

Directors	Number of shares held and nature of interests					Percentage of the issued share capital
	Personal (Note)	Family	Corporate	Other	Total	
Mr. Xie Kehua	9,000,000	–	–	–	9,000,000	1.48%

Note: All represented domestic shares

Save as disclosed in this paragraph, as at 30 June 2006, none of the directors and 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) or 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 period under review was the Company, its subsidiaries a party to any arrangement to enable the directors and supervisors of the Company or their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in the Company.

Substantial shareholders

As at 30 June 2006, 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 Ordinary shares	Percentage of of the issued share capital
Tianjin TEDA International Incubator	Beneficial owner	234,000,000 (Note 1)	38.36%
Dai Shi Hua	Beneficial owner	32,180,000 (Note 2)	5.28%

Notes:

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

Save as disclosed above, as at 30 June 2006, the directors of the Company were not aware of any other person (other than the directors and the supervisors of the Company) who had an interest and short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

Competing interests

During the six months ended 30 June 2006, none of the directors, the supervisors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) of the Company competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group required to be disclosed pursuant to the GEM Listing Rules.

Major acquisition and connected transaction

As announced by the Company on 30 June 2006, the Company, Wan Tai (a wholly-owned subsidiary of the Group), the other shareholders of Guangdong Fulilong Compound Fertilizers Limited ("Fulilong") and Fulilong entered into the Equity Transfer Agreement pursuant to which the Company and Wan Tai conditionally agreed to acquire the remaining 49% equity interests in Fulilong from the other shareholders of Fulilong. Upon the completion, Fulilong, which is 51% owned by the Company before the Acquisition, shall become a wholly-owned subsidiary of the Group.

The consideration for the Acquisition is RMB33 million (equivalent to approximately HK\$32 million). The Consideration has been arrived at after arm's length negotiation among the parties to the Equity Transfer Agreement having taken into account the audited net asset value of Fulilong of approximately RMB68 million as at 31 December 2005 prepared in accordance with generally accepted accounting principles in the PRC and the Sale Equity in the registered capital of RMB16 million of Fulilong. It is expected that the Consideration shall be payable upon completion of the equity transfer agreement.

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

Pursuant to Rule 19.07 of the GEM Listing Rules, the Acquisition will constitute a major acquisition of the Company. Besides, as Mr. Gan Shi Fan and Mr. Cao Ai Xin, two of the other shareholders of Fulilong, are the director and general manager of Shandong TEDA respectively and Mr. Cao Ai Xin is the director of Fulilong, they are considered as connected persons pursuant to Rule 20.11(1) of the GEM Listing Rules. Accordingly, the Acquisition will also constitute a connected transaction of the Company and is required to be subject to the shareholders' approval at the EGM.

Change of chief executive and supervisor

During the period under review and up to date of this report, Mr. Zhang Songhong has tendered his notice of resignation on 10 August 2006 as the chief executive of the Company with immediate effect. Mr. Hao Zhihui has been appointed as the chief executive of the Company immediately upon Mr. Zhang's resignation with effect from 10 August 2006. As soon as Mr. Hao was appointed as the chief executive, he resigned as the supervisor of the company. The Company will look for suitable candidate immediately and appoint a new supervisor of the Company as soon as practicable.

Change in Directorship

During the period under review and up to date of this report, Mr. Chan Yip Kai Philip has resigned as independent non-executive director of the Company with effect from 27 July 2006.

Number of independent non-executive Director

On 27 July 2006, one of our independent non-executive Directors, Mr. Chan Yip Kai Philip resigned his directorship. Following the resignation of Mr. Chan Yip Kai Philip, there were only two independent non-executive Directors in the Board and two members in the audit committee. Therefore, the Company was not able to comply with Rules 5.05(1) and 5.28 of the GEM Listing Rules which require the Company to retain at all times a minimum of three independent non-executive Directors, one of whom must have appropriate professional qualifications or accounting or related financial management expertise and three audit committee members.

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 two non-executive independent Directors, namely Professor Xian Guoming, and Mr. Guan Tong.

The Committee has reviewed the half-yearly results and the half-yearly report of the Group for the six months ended 30 June 2006.

Share option scheme

During the six months ended 30 June 2006, none of the directors or supervisors or employees of the Company or other participants of the share option scheme of the Company was granted with options to subscribe for the H shares of the Company.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed during the half-yearly period of 2006 under review.

Purchase, sale or redemption of securities

The Company has not redeemed any its shares during the period under review. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's shares during the half-yearly period of 2006 under review.

CODE ON CORPORATE GOVERNANCE PRACTICES

Except for the deviations disclosed hereof, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules during the period under review:–

Under the code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The chairman and chief executive of the Company were only segregated on 4 January 2006. Before 4 January 2006, the chairman and chief executive of the Company were Mr. Wang Shuxin. Since January 2006, Mr. Wang Shuxin has remained as the chairman of the Company whereas Mr. Zhang Songhong has been appointed as the chief executive officer of the Company. Mr. Zhang Songhong resigned as the chief executive of the Company on 10 August 2006. Mr. Hao Zhihui has been appointed as the chief executive of the Company immediately upon. Mr. Zhang's resignation with effect from 10 August 2006.

Under the code provision A.3, every board of directors of a listed issuer must include at least three independent non-executive directors. After the date of 27 July 2006, the Company has maintained only two independent non-executive directors which was resulted from the resigning independent non-executive director and before the appointment of the new independent non-executive director taking effect upon the prior approval from the Stock Exchange.

Under the code provision A.4.4, a listed issuer should establish a nomination committee with specific written terms of reference which deal clearly with its authority and duties. Although the Company has not set up any nomination committee, the Company will set up such committee by the third quarter of 2006.

By Order of the Board
Wang Shuxin
Chairman

Tianjin, PRC, 10 August 2006

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