



泰 达

天津泰达生物醫學工程股份有限公司

Tianjin TEDA Biomedical Engineering Company Limited

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 8189)

THIRD QUARTERLY 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

- Turnover for the nine months ended 30 September 2006 increased to approximately RMB217,361,000, representing an increase of approximately 47% over that recorded in the corresponding period of 2005.
- Gross profit increased by 25.2% from the corresponding period of 2005 to approximately RMB32,390,000 for the nine months ended 30 September 2006.
- Gross profit margin decreased to approximately 15% for the nine months ended 30 September 2006 which was lower than that of 17.5% recorded in the corresponding period of last year. Gross profit margin is approximately 16.9% for the three months ended 30 September 2006 which is higher than that of 14.7% recorded in the corresponding period of last year.
- The Group recorded a profit for the months of approximately RMB2,795,000 for the nine months ended 30 September 2006 (September 2005: loss for the months of approximately RMB5,662,000).
- Loss attributable to equity holders during the nine months ended 30 September 2006 was decreased by 58% to approximately RMB2,113,000 when compared with the same recorded in the corresponding period of 2005.

THIRD QUARTERLY RESULTS (UNAUDITED)

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2006 (Unaudited) <i>RMB</i>	2005 (Unaudited) <i>RMB</i>	2006 (Unaudited) <i>RMB</i>	2005 (Unaudited) <i>RMB</i>
<i>Notes</i>				
Turnover	68,681,160	67,858,658	217,361,405	148,045,028
Less: sales tax	(1,049)	(18,384)	(11,927)	(89,616)
Cost of sales	<u>(57,065,857)</u>	<u>(57,843,070)</u>	<u>(184,959,398)</u>	<u>(122,087,482)</u>
Gross profit	11,614,254	9,997,204	32,390,080	25,867,930
Other revenue/(expenditure)	(278,498)	540,621	709,818	128,904
Distribution and selling expense	(4,831,038)	(6,047,928)	(16,287,997)	(17,102,898)
R&D and administrative expenses	<u>(1,801,823)</u>	<u>(3,812,607)</u>	<u>(9,428,362)</u>	<u>(11,423,697)</u>
Operating profit/(loss)	4,702,895	677,290	7,383,539	(2,529,761)
Finance costs	(1,659,624)	(1,050,179)	(4,474,105)	(2,970,995)
Amortisation of goodwill on consolidation	<u>151,710</u>	<u>151,710</u>	<u>–</u>	<u>–</u>
Profit/(loss) before taxation	3,194,981	(221,179)	2,909,434	(5,500,756)
Taxation	(114,679)	(76,905)	(114,679)	(161,612)
Profit/(loss) for the months	<u>3,080,302</u>	<u>(298,084)</u>	<u>2,794,755</u>	<u>(5,662,368)</u>
Attributable to:				
Equity holders of the Company	(51,103)	170,459	(2,112,877)	(5,049,595)
Minority interests	<u>3,131,405</u>	<u>(468,543)</u>	<u>4,907,632</u>	<u>(612,773)</u>
	<u>3,080,302</u>	<u>(298,084)</u>	<u>2,794,755</u>	<u>(5,662,368)</u>
Profit/(loss) per share	<u>(0.008) cents</u>	<u>0.028 cents</u>	<u>(0.35) cents</u>	<u>(1.037) cents</u>

Notes:

1. Basis of presentation

The condensed unaudited consolidated financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of 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 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 RMB75,370,348 as at 30 September 2006. 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. In January and April 2006, the Company received RMB53 million of new loan against this facility. Consequently, the Directors have prepared the unaudited third-quarterly report for the nine months ended 30 September 2006 on the going concern basis.

2. 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 three months ended 30 September		For the nine months ended 30 September	
	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Turnover				
Fertilizer products	55,577,566	53,649,823	185,018,616	109,067,531
Medical & health products	13,103,594	14,208,835	32,342,789	38,977,497
	<u>68,681,160</u>	<u>67,858,658</u>	<u>217,361,405</u>	<u>148,045,028</u>

3. 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 People's Republic of China (the "PRC"), the Company is eligible to enjoy the concessionary EIT of 15%. It is further entitled to exemption from EIT for two years commencing from 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 Sino-foreign equity 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 30 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 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.

Shandong 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 for the year ended 31 December 2005. In the opinion of the Directors, Fulilong has complied with the qualification requirements of a welfare enterprise for the nine months ended 30 September 2006 and accordingly Fulilong should also be exempted from EIT for the period under review.

(b) *Income tax expense*

	For the nine months ended 30 September	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Current Tax		
Hong Kong	Nil	Nil
Other Jurisdictions	115	162

The income tax charge in Hong Kong is Nil for the nine months ended 30 September 2006 (September 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 RMB114,679 for the nine months ended 30 September 2006 (September 2005: RMB161,612).

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

	For the nine months ended	
	30 September 2006	30 September 2005
	<i>RMB</i>	<i>RMB</i>
Profit/(loss) before tax	2,909	(5,501)
Tax calculated at the EIT rate of 33%	960	(1,815)
Tax rate differential	(3,906)	1,255
Effect of tax holiday exemption	–	–
Effect of the tax losses on consolidation	3,061	722
Tax effect of expenses that are not deductible in determining taxable profit	–	–
	<hr/>	<hr/>
Tax expenses for the period	115	162

4. **Loss per share**

For the nine months ended 30 September 2006, the calculation of loss per share is based on the Group's loss attributable to equity holders of RMB2,112,877 (September 2005: loss of RMB5,049,595), divided by the total number of shares issued by the Company of 610,000,000 shares (September 2005: 610,000,000 shares). Diluted profit per share is not presented as there are no dilutive potential shares during the nine months ended 30 September 2006.

DIVIDEND

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

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY (UNAUDITED)

For the nine months ended 30 September 2006

	Share Capital		Share premium		Accumulated Losses		Capital reserve		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	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	-	21,000,000	-	13,057,620	(2,163,135)	(1,257,036)	(288,250)	-	(2,451,385)	32,800,584
Balance as at 30 June	61,000,000	61,000,000	75,089,571	75,089,571	(75,319,245)	(79,250,271)	2,253,154	2,541,404	63,023,480	59,380,704
Net profit/(loss) attributable to equity holders of the Company for the three months ended 30 September	-	-	-	-	(51,103)	170,459	-	-	(51,103)	170,459
Balance as at 30 September	<u>61,000,000</u>	<u>61,000,000</u>	<u>75,089,571</u>	<u>75,089,571</u>	<u>(75,370,348)</u>	<u>(79,079,812)</u>	<u>2,253,154</u>	<u>2,541,404</u>	<u>62,972,377</u>	<u>59,551,163</u>

BUSINESS REVIEW

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

For the nine months ended 30 September 2006, turnover of the Group amounted to approximately RMB217,361,000, representing an increase of approximately 47% over that recorded in the corresponding period of 2005. 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.

Due to the lower gross profit margin of the fertilizer products sold by Fulilong, the overall gross profit margin of the Group was decreased to approximately 15% for the nine months ended 30 September 2006 which was lower than that of 17.5% recorded in the corresponding period of 2005. However, the overall gross profit margin of the Group was approximately 16.9% for the three months ended 30 September 2006 which was higher than that of 14.7% recorded in the corresponding period of last year. Due to increase in sales turnover, the gross profit was increased to approximately RMB32,390,000, representing an increase of approximately 25% from that achieved in the corresponding period in 2005.

During the nine months ended 30 September 2006, loss attributable to equity holders was thus decreased by 58% to approximately RMB2,113,000 when compared with the same recorded in the corresponding period of 2005.

During the nine months ended 30 September 2006, approximately 85% 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 foods, medical equipment and intraocular lens products (“IOLs”).

The diabetic health foods and medical equipment under the brand name of “Alpha” and “TEDA” totally contributed to the remaining approximately 15% of the Group’s total turnover for nine months ended 30 September 2006.

Fertilizer products

The PRC is currently the largest producer and consumer of chemical fertilizers. According to the latest statistical data recently announced in The Eleventh China National Fertilizer Market Symposium held in October 2006, the consumption of compound fertilizers represents at about 25% of the total consumption of chemical fertilizers of PRC and, compared with an average global level of 50% of the consumption of compound fertilizers is far below the 70% level of that of developed countries. Thus, the Group expects that the demand of compound fertilizers in the PRC market will continually and stably rise.

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 nine months ended 30 September 2006, Fulilong recorded a total sales of approximately RMB185,019,000 of fertilizer products to various customers throughout the PRC. During the nine months ended 30 September 2006, the total gross profit derived from the sale of fertilizer products amounted to approximately RMB18,707,000. The Group expects that the sale of fertilizer products will be continually and steadily increased in the coming quarter as the policy of the PRC central government to support and encourage the farmers to use effective fertilizer products to improve their productivity will not be changed. As a result, the demand of compound fertilizers in the PRC market will continue to rise steadily year by year.

As at 30 September 2006, Fulilong 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 adopts the advanced technology of “Melt Granulation Methods with High Tower”. The annual production capacity has reached approximately 800,000 tones of fertilizer products. During the period under review, the Guizhou Guihua project (貴州貴化項目) has been smoothly under construction and expected to commence trial production by the end of the year of 2006.

Currently, Fulilong continues to concentrate on its sales of fertilizer products in Guangdong, Southern and Western China. The products are distributed to eighteen provinces, cities and autonomous regions in the whole China.

In the future development process, Fulilong will maintain its 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 areas in the PRC and position its products as one of the best fertilizer products in the high-end market.

Medical and health products

During the nine months ended 30 September 2006, the total sales of diabetic health products by Alpha continued to record a new high of approximately RMB31,925,000. The increase in sales was the strong demand for “Alpha” sugar-free mooncakes same as last year and also contributed by the increase in the sale of sugar free almond juice. The gross profit margin of “Alpha” health foods maintained at about 45% for the nine months ended 30 September 2006 (as at 30 September 2005: 49%). It is the long term objective for Alpha to achieve the increased market share in the field of sugar free health foods.

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

Distribution and selling

For the nine months ended 30 September 2006, the turnover representing an increase of approximately 47% over that recorded in the corresponding period in 2005. The Group's distribution and selling expenses amounted to approximately RMB16,288,000, which was reduced slightly by approximately 4.77% as compared with such expenses recorded in the corresponding period in 2005 (2005: RMB17,103,000). The Group continued to adopt its tight control policy for the purpose of cost reduction in order to increase its production efficiency and cost-effectiveness.

Research and development and administration

For the nine months ended 30 September 2006, the Group's research and development and administration expenses amounted to approximately RMB9,428,000 which was slightly decreased by approximately 17.47% from that recorded in the corresponding period of last year (2005: RMB11,424,000). The total employees of the Group were increased from 385 (as at 30 September 2005) to 645 (as at 30 September 2006). The increase in the number of employees was due to the inclusion of the staff of Fulilong after the subscription.

The Group will continue a new cost reduction program by streamlining its operation in order to increase its production efficiency and cost-effectiveness in the coming quarter.

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 from the other shareholders of Fulilong. Please refer to the section headed "Major acquisition and connected transaction" of this announcement 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 September 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					Total	Percentage of the issued share capital
	Personal <i>(Note)</i>	Family	Corporate	Other			
Mr. Xie Kehua	9,000,000	-	-	-		9,000,000	1.48%

Note: All represented domestic shares

Save as disclosed in this paragraph, as at 30 September 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 September 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 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 September 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 nine months ended 30 September 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 Fulilong and Fulilong entered into the Equity Transfer Agreement 25 June 2006 (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 approximately RMB33.4 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 approximately RMB16 million of Fulilong.

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.

Change of chief executive and supervisor

During the period under review, Mr. Zhang Songhong tendered his notice of resignation on 10 August 2006 as the chief executive of the Company with immediate effect. Mr. Hao Zhihui was 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 possible.

Change of independent supervisor

During the period under review, Mr. Chang Zheng has resigned as an independent supervisor of the Company with effect from 27 July 2006. With reference to the Company’s announcement dated 12 September 2006, in replacement of Mr. Chang Zheng, Mr. Wong Xiaofa was appointed as an independent supervisor on 12 September 2006.

Change in Directorship

During the period under review, 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 directors

Reference is made to the Company's announcement on 26 June 2006 that the Company did not comply with Rules 5.05 and 5.28 of the GEM Listing Rules since 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. With reference to the Company's announcement dated 12 September 2006, in replacement of Mr. Chan Yip Kai Philip, Mr. Wu Chen was appointed as an independent non-executive director of the Company on 12 September 2006.

Nomination committee

The nomination committee of the Company has been established on 10 August 2006. During the period ended 30 September 2006, the chairman of the committee was Mr. Xie Guangbei, the non-executive Director of the Company, and other two members were Mr. Wu Chen, and Mr. Guan Tong, the independent non-executive Directors.

The nomination committee is responsible for formulating nomination policy, and making recommendations to the Board on nomination and appointment of Directors and Board succession. The committee will also develop selection procedures for nomination of candidates, review the size, structure and composition of the Board, as well as assess the independence of independent non-executive directors. The committee is provided with sufficient resources enabling it to discharge its duties.

Any member of the nomination committee is authorised to identify suitable candidates for the position of director when there is a vacancy or an additional director is considered necessary. Once identified, the member of the nomination committee will propose the appointment of such candidates to the nomination committee which will review the qualifications, experiences and background of the relevant candidates for determining the suitability to the Group. The candidates approved by the nomination committee will then be proposed to the entire Board for final approval and, where appropriate, for recommendation to the shareholders for their approval at the general meeting of the Company.

The specific terms of reference of the nomination committee of the Company are available to shareholders of the Company upon request.

There was no selection and recommendation of candidates for directorship, no nomination committee meeting was held during the period under review.

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 HongKong 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 currently comprises three non-executive independent Directors, namely Professor Xian Guoming, Mr. Wu Chen and Mr. Guan Tong.

The Committee has reviewed the third quarter results and the third quarter report of the Group for the nine months ended 30 September 2006.

Share option scheme

During the nine months ended 30 September 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.

PLACING ARRANGEMENT

On 4 September 2006, the Company signed a Preliminary Placing Agreement with China Merchants Securities (HK) Co., Ltd (“CM”), under which CM was authorized to place approximately 61.31% of the existing issued share capital of the Company and 39.37% of the issued share capital of the Company immediately upon completion of the Placing (assuming that the maximum number of the New Placing H Shares have been issued) to raise gross proceeds of approximately HK\$62,730,000 for the Company.

On 18 September 2006, a Circular was issued to all shareholders of the Company in connection with the proposed major transaction relating to the proposed placing of new H shares of the Company and the proposed specific mandate (“Specific Mandate”) for the issue of new H shares of the Company. Under the Circular, notice were given to the shareholders of the Company for holding an extraordinary general meeting (“EGM”) for passing of the special resolution of allotting, issuing and dealing of such new H shares subject to the terms and conditions of the above placing mandate.

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 third quarter 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 third quarter 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 was 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 but before the date of 12 September 2006, the Company has maintained only two independent non-executive directors which was resulted from the resignation of an independent non-executive director. The appointment of a new independent non-executive director has been taken effect upon the ordinary resolution passed by the shareholders of the Company at the Extraordinary General Meeting held on 12 September 2006.

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. Before the date of 10 August 2006, the Company has not set up any nomination committee. However, to comply with the code provision A.4.4, the Company has set up the nomination committee on 10 August 2006.

By Order of the Board
Wang Shuxin
Chairman

Tianjin, PRC, 10 November 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 three independent non-executive directors, being Professor Xian Guoming, Mr. Wu Chen and Mr. Guan Tong.