泰达

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 2006

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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 biological compound fertilizer products, medical and health products.

Biological compound fertilizer products

This includes a series of biological compound fertilizer products under the brands of "Fulilong" and "Lvzhou", which have been granted "exemption from product quality inspection" by the General Administration of Quality Supervision, Inspection and Quarantine of PRC.

Medical and health products

A diversified product range including a series of diabetic health products, such as sugar reducing health foods developed in various forms such as noodles, flour, biscuits, etc.; a series of products beneficial to the health of human body, such as sugar-free drinks, sugar-free mooncakes, etc.; and also including medical device products, such as intraocular lens and others.

Tianjin TEDA Biomedical Engineering Company Limited

(principally engaged in the research and development and commercialization of biological compound fertilizer products as well as medical and health products)

100%

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

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

75%

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

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

51%

Shandong Fulilong Fertilizer Industry Co., Ltd. ("Shandong Fulilong")*

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

100%

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

(principally engaged in trading in biomedical equipment and biomaterials)

* In order to integrate the Group's advantages in the brand of "Fulilong", the former "Shandong TEDA Bio-engineering Co., Ltd." was renamed as "Shandong Fulilong Fertilizer Industry Co., Ltd."on September 27, 2006.

CORPORATE INFORMATION

Executive Directors
Mr. Wang Shuxin
Mr. Xie Kehua
Mr. Zhang Songhong

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

Independent non-executive Directors
Professor Xian Guoming
Mr. Guan Tong
Mr. Wu Chen

Supervisors
Mr. Zhao Tingying
Mr. Yuan Wei

Independent Supervisors
Mr. Wang Xiaofa
Mr. Gao Xianbiao

Company Secretary/Qualified Accountant
Mr. Ng Ka Kuen Raymond, CPA, FCIS

Compliance Officer
Mr. Wang Shuxin

Audit Committee
Professor Xian Guoming
Mr. Guan Tong
Mr. Wu Chen

Nomination and Remuneration Committee
Mr. Xie Guangbei
Mr. Guan Tong
Mr. Wu Chen

Authorized Representatives
Mr. Wang Shuxin
Mr. Ng Ka Kuen Raymond

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

Auditors
Horwath Hong Kong CPA Limited

Head Office and Principal Place of Business
9th Floor, Block A2
Tianda Hi-Tech Park
No. 80, The 4th Avenue
TEDA Tianjin, PRC

Hong Kong Representative Office
Suites 1501-1503, 15th Floor
Gloucester Tower
The Landmark
15 Queen's Road
Central
Hong Kong

Hong Kong Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17/F Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

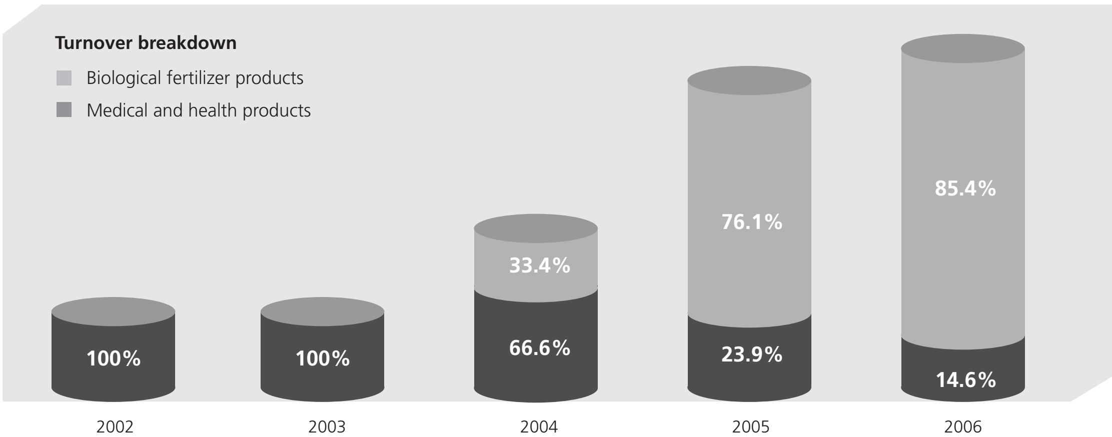
Company Website
www.bioteda.com

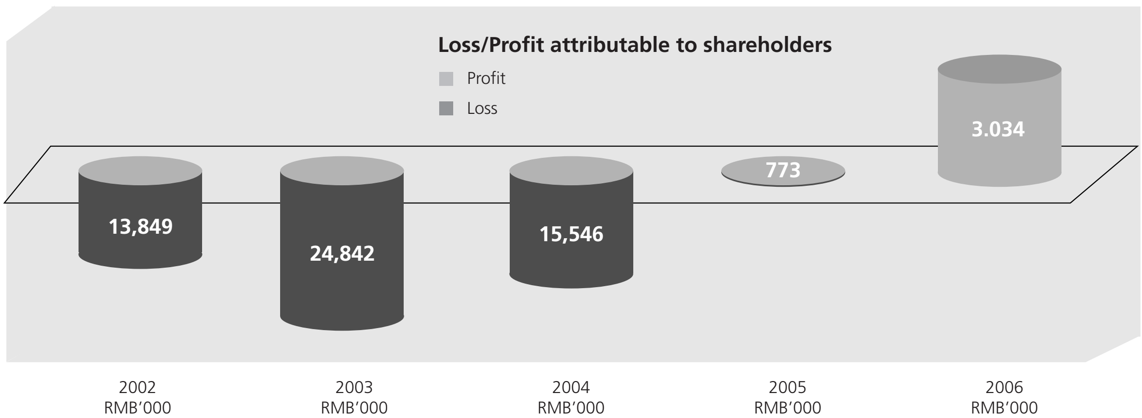
Stock Code
8189

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2002	2003	2004	2005	**2006**
Results	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	30,431	47,305	58,646	205,032	**270,639**
Gross profit	14,758	22,413	20,961	31,331	**43,625**
Gross margin	48.60%	47.40%	35.70%	15.28%	**16.12%**
Profit/(Loss) attributable to shareholders	(13,849)	(24,842)	(15,546)	773	**3,034**
Profit/(Loss) per share	(3.96) cents	(6.21) cents	(3.89) cents	0.15 cent	**0.50 cents**

	31 December				
	2002	2003	2004	2005	**2006**
Assets & Liabilities	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	117,051	107,999	123,656	208,266	**278,839**
Total liabilities	46,120	55,948	90,352	110,393	**208,097**
Shareholders' equity	70,931	46,089	30,543	65,374	**68,408**





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 2006.

The Company and its subsidiaries (collectively the "Group") are principally engaged in the research and development, production and sale of biological compound fertilizer products and medical and health products. In 2006, the Group's combined sales income amounted to approximately RMB270,640,000, including income from the sales of biological compound fertilizer products in an amount of RMB231,220,000, an increase by 48.1% as compared with the same as recorded in the previous year. The income from the sales of fertilizer products accounted for 85.4% of the Group's combined sale income and such products have become the leading products of the Group.

Continuous and rapid growth in turnover and operating results. Leveraging on its strengths in the technology, product brands, marketing networks, accumulated over the years, the Group actively expanded the market of biological compound fertilizer products and further developed its distributor network in 2006, and now has products selling in seventeen provinces and autonomous regions, namely Guangdong, Guangxi, Hunan, Hubei, Fujian, Jiangxi, Zhejiang, Jiangsu, Hainan, Sichuan, Shandong, Shaanxi, Henan, Hebei, Gansu, Yunnan and Xinjiang. During the year, the Group's income from the sales of compound fertilizer products was RMB231,220,000, representing an increase of 48.1% as compared with the same as recorded in the previous year, and an income from the sales of "ALPHA" brand reached RMB37,670,000, up 22.3% from the year 2005. ALPHA has established a relatively mature network that covers the whole country in five big sales territories in Northern China, Eastern China, Western China, Southern China and Northeast China, among which the Northern China sales territory plays an important role in the whole sales network.

In 2006, the Group generated a sales income of approximately RMB270,640,000, a 32% growth compared with that recorded in last year, and profit attributable to shareholders amounted to RMB3,034,000, 2.9 times more than that of last year.

Completion of the establishment of production bases. As at December 2006, the Group had basically completed the allocation of its biological compound fertilizer production bases in China: (i) Guangdong production base at Dongguan, Guangdong Province has a production line with an annual production capacity of 400,000 tonnes of compound fertilizers; (ii) Shaanxi production base at Xingping, Shaanxi Province has a production line with an annual production capacity of 400,000 tonnes of highly condensed nitryl compound fertilizers and adopting the technology known as "Melt Granulation Method with High Tower" (高塔熔融造粒); (iii) Guizhou production base at Guiyang, Guizhou Province has a production line with an annual production capacity of 200,000 tonnes of highly condensed urea – based compound fertilizer and adopting the technology known as "Melt Granulation Method with High Tower" (高塔熔融造粒); and (iv) Shandong production base at Weifang, Shandong Province has a production line with an annual production capacity of 300,000 tonnes of highly condensed biological compound fertilizer and adopting the technology known as "Melt Granulation Method with High Tower" (高塔熔融造粒). The Group's annual production capacity of biological compound fertilizer reaches 1.3 million tonnes. The Guizhou and Shandong production factories are at the stage of trial production and are expected to commence mass production in the first half of 2007.

The production scale and business scale of medical and health products are appropriate and in 2006, the original production scale was maintained.

In order to increase its interest in the business operation of compound fertilizers, the Group, after having possessed 51% of equity in Guangdong Fulilong, further acquired the remaining 49% of equity in Guangdong Fulilong and has become the sole shareholder of that company. This contributed to the improvement in the operating results of the Group in 2006.

China is a big agricultural country, and the Chinese Party Central Committee and the State Council pay much attention on issues concerning agricultural industry, rural areas and farmers. China is the world's largest producer and consumer of fertilizers. Since the State introduced the industrial policies of "Increasing the compound level of fertilizers and giving more support to highly condensed compound fertilizers", there is a rapid growth in the output of compound fertilizers of nitrogen, phosphorus and potassium, from less than 8 million tons/year in 2000 to 17.07 million tons/year in 2005. As a development orientation for Chinese fertilizer industry, compound fertilizer represents a reform of the agricultural fertilization structure. Since 2006, China has gradually implemented market-oriented reforms in the fertilizer industry, and protects the interests of farmers by giving farmers direct subsidies, reduces government's direct intervention in the market prices of fertilizers step by step, promotes the sound development of the fertilizer industry and creates a fair playing field for fertilizer enterprises. The Company will seize this historic opportunity, develop its own strengths and gradually establish a strong marketing network.

In 2006, the Group's corporate governance structure was improved. The chairman and the chief executive officer of the Company are separately designated. The Supervisory Committee plays its role of supervision. The Audit Committee and the Remuneration Committee contribute to the upgrade of corporate management standards. Various departments carry out respective work subject to the "Code on Corporate Governance Practices" of the GEM Listing Rules of the Stock Exchange Limited.

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

Wang Shuxin
Chairman

26 March 2007

Business Review

For the year ended 31 December 2006, Tianjin TEDA Biomedical Engineering Company Limited ("TEDA Biomedical" or the "Company", together with its subsidiaries, the "Group"), was principally engaged in the research, production and sale of two major products, namely biological compound fertilizer products and medical and health products. Its sales income for the year totalled approximately to RMB270,640,000, a 32% increase comparing with that of the year before. The series of products under the brand names of "Fulilong" and "Lvzhou" are its flagship biological compound fertilizers. Guangdong Fulilong Compound Fertilizers Co., Ltd. (hereinafter referred to as "Guangdong Fulilong"), which is a subsidiary of TEDA Biomedical, is a high and new technological enterprise in Guangdong Province and has obtained ISO9001 Quality Certificate in July 2003. The two brands "Fulilong" and "Lvzhou" were given the certificate for "Exemption from Product Quality Inspection by the State" by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China in December 2005. In 2006, the Group, by taking advantage of Guangdong Fulilong's strengths in the technology, brand name and marketing network, actively developed the biological compound fertilizer product market and further expanded its distributor network and retail points. Now, the Group's products have been sold to 17 provinces and autonomous regions, namely Guangdong, Guangxi, Hunan, Hubei, Fujian, Jiangxi, Zhejiang, Jiangsu, Hainan, Sichuan, Shandong, Shaanxi, Henan, Hebei, Gansu, Yunnan and Xinjiang. The Group realized a sales income from compound fertilizer products of RMB231,220,000, an increase of 48.1% comparing with the same recorded in the year before.

According to the cooperation agreement signed by Guangdong Fulilong and Guizhou Fertilizer Plant in June 2005, Guizhou Fertilizer Plant is responsible for the establishment of the civil work of the project of granulation method with high tower, while Guangdong Fulilong is responsible for providing production technology and equipment for Melt Granulation Method with High Tower. As at 31 December 2006, the Project and the installation of equipment have entered the last phase and is expected to commence formal production in the first half of 2007. Its designed production capacity is 200,000 tonnes of urea based compound fertilizers annually, and, Guangdong Fulilong will be responsible for the exclusive sales of all these fertilizers. TEDA Biomedical's another subsidiary in Weifang of Shandong, Shandong Fulilong Fertilizer Industry Co., Ltd. (originally Shandong TEDA Bioengineering Co., Ltd.), is now actively building a highly condensed biological compound fertilizer production line with Melt Granulation Method with High Tower and an annual production capacity of 300,000 tonnes. The products are mainly distributed to Shandong, China's largest rural market, and its surrounding areas. It is expected that the formal production could be commenced in the first half of 2007.

After the completion of the Company's acquisition of 100% interest in Guangdong Fulilong, the entire results of Guangdong Fulilong have been consolidated into the accounts of the Group, resulting in a further improvement of the Group's financial performance.

For the year ended 31 December 2006, the sales income of ALPHA series of healthcare food amounted to RMB37,670,000, representing an increase of RMB6,880,000 or 22.3% as compared with that of in 2005. In 2006, actual collection reached RMB41,210,000. Judging from the market distribution, ALPHA has developed a rather mature sales network that covers all the country in five sales territories in Northern, Eastern, Western, Southern and Northeast China.

As mentioned in the announcement made by the Company on 5 September 2006, a Preliminary Placing Agreement was entered into between the Company and China Merchants Securities (HK) Co., Ltd., its financial adviser and placing agent ("Placing Agent") on 4 September 2006, pursuant to which the Placing Agent on a best effort basis has agreed to place, subject to conditions including the execution of the Definitive Placing Agreement, an aggregate of not more than 374 million H Shares at the Placing Price. The Placing Price will be determined upon execution of the Definitive Placing Agreement with reference to the average of the closing price of the H Shares for the 5 consecutive trading days before the date of execution of the Definitive Placing Agreement subject to a discount of not more than 10% but the Placing Price should not in any way be less than the net asset value per H Share. The gross proceeds from the placing of the New H Shares are estimated to be approximately HK$62.73 million and the net proceeds from the placing of the New H Shares after deducting related expenses are estimated to be approximately HK$55 million. As required under in the State-owned Shares Reduction Regulations, such number of state-owned shares in a joint stock company equivalent to 10% of its proceeds in issuing new shares should be sold. Since Tianjin TEDA International Incubator, the controlling shareholder of the Company, is a state-owned enterprise, it shall convert not more than its 34 million Domestic Shares into equal number of Sale H Shares.

Operating Environment

China is a large agricultural country. The prosperous agriculture industry brings a sold foundation. Rich farmers bring a powerful country and stable villages bring a secured society. The Central Government and the State Council paid much attention to issues concerning agricultural industry, rural areas and farmers and have issued for 4 consecutive years the No. 1 Central Document which provides the guideline for 'agricultural industry, rural areas and farmers' work and call for the development of modern agriculture, that equips the agricultural industry with modern facilities and fosters new farmers to develop agriculture. China exempted agricultural tax from 2006, in an attempt to cut down cost of agricultural production. Therefore, agricultural productivity and the demand for fertilizers increase substantially. Currently, the annual output growth of global fertilizers is about 2%-3%, and China's growth contribution rate is 40%-60%. The annual production volume of fertilizers in China is about 1/3 of the world total and the apparent consumption amount accounts for about 35% of world total. China has become the world's largest fertilizer producer and consumer. In recent years, as the State introduced the industrial policies of "increasing a higher compound level of fertilizers and giving strong support for highly condensed compound fertilizers", the production volume of compound fertilizers of nitrogen, phosphorus and potassium increased rapidly from less than 8 million tonnes annually in 2000 to 17.07 million tonnes annually in 2005. As a development orientation for Chinese fertilizer industry, compound fertilizer represents a reform of the agricultural fertilization structure and is a powerful tool to improve the imbalance of nitrogen, phosphorus and potassium in arable land. It is also an effective way to carry out formula fertilizing recommended by the Ministry of Agriculture of China. Since 2006, the State has gradually implemented market-oriented reforms in the fertilizer industry, and protects the interests of farmers by giving farmers direct subsidies, reduces government's direct intervention in the market prices of fertilizers step by step, promotes the sound development of the fertilizer industry and creates a fair playing field for fertilizer enterprises. The Company will seize this opportunity, develop its own strengths and gradually establish a strong marketing network in order to stay ahead in the future market competition.

Operating Environment *(continued)*

In 2006, medical and healthcare industry maintains a rather high speed of growth. The continuous improvement in living standards, the gradual optimization of the medical healthcare system and the increase in medical consumption level all contributed to the speedy and long-term growth of medical and healthcare industry. It is expected that the growth of sales income in the industry reached 20% in 2006. The long-term growth of the medical and healthcare industry will be sustainable and steady. The reform of the medical and healthcare system is a hot topic now, and the State's future reform of the medical and healthcare system will affect China's medical and healthcare industry to some extent.

Competition in the domestic medical and healthcare product market has intensified. National and local administrative departments has strengthened supervision over medical apparatus, healthcare food to regulate blood sugar and sugar-free food, further purifying and regulating the domestic medical healthcare products market. For example, the promulgation of the "Administrative Measures on Fair Competition among Retailers and Suppliers" by the five Ministries set for the first time the market distribution rules at the policy level.

Financial Highlights

During the year ended 31 December 2006, in light of the substantial increase in the sales of the Company's biological fertilizer products, the Group's total turnover amounted to approximately RMB270,640,000 (excluding other revenues), representing an increase of 32% as compared with RMB205,032,000 recorded in 2005. Guangdong Fulilong has built a network of 270 direct product supply distributors in 17 provinces, cities and autonomous regions in the country, and contributed approximately RMB230,313,000 to the sales turnover of the Group and approximately RMB27,279,000 to the sales gross profit. The gross profit margin of such products was 11.8%, resulting in a change in the Group's overall gross profit margin from 15.3% in 2005 to 16.1% in 2006. With the Group's newly-built production bases which adopt new technology commencing production one after another, the gross profit margin from the sales of biological fertilizers will rise.

The Group continued to increase its profit in 2006, with profit attributable to equity holders rising from approximately RMB773,000 in 2005 to approximately RMB3,034,000 in 2006. This was mainly due to the the enhancement of cost control of production processes and effective control of overall costs, as well as gain derived from the disposal of the entire equity interest in a Company's subsidiary.

Production and Research and development

As at December 2006, the Group had basically completed the allocation of its biological compound fertilizer production bases in China: the Guangdong production base at Dongguan, Guangdong Province has a production line with an annual production capacity of 400,000 tonnes of compound fertilizers. The Shaanxi production base at Xingping, Shaanxi Province has a production line with an annual production capacity of 400,000 tonnes of highly condensed nitryl compound fertilizers and adopting the technology known as "Melt Granulation Method with High Tower" (高塔熔融造粒). The Guizhou production base at Guiyang, Guizhou Province has a production line with an annual production capacity of 200,000 tonnes of highly condensed urea – based compound fertilizer and adopting the technology known as "Melt Granulation Method with High Tower" (高塔熔融造粒). The plant is expected to commence formal production in the first half of 2007. The Shandong production base at Weifang, Shandong Province has a production line with an annual production capacity of 300,000 tonnes of highly condensed biological compound fertilizer and adopting the technology known as "Melt Granulation Method with High Tower" (高塔熔融造粒). The plant is also expected to commence formal production in the first half of 2007. It is expected that the Group's annual production capacity of biological compound fertilizer will reach 1.3 million tones in the first half of 2007.

The Group keeps perfecting the production techniques of intraocular Lens (IOL), and improves its existing technical documents, system documents, legal documents and relevant implementation documents in accordance with the relevant laws and regulations of the state and industry to provide technical assurance to the smooth production and distribution operation; it also inspect on its own or engages other parties to inspect and maintain its air purification equipment, water making equipment, gas making equipment, lathe-milling processing equipment, polishing equipment, sterilizing equipment and various test equipments and ensures good maintenance of its hardware during the period of production; In addition, regular and systematic trainings on theories and practical operation are provided to the personnel responsible for the production of IOL so as to lay a foundation for producing products of distinguished quality.

The quality control system of the production site for the "Alpha" series of healthcare food has been improved, to ensure that all the product indicators reach the quality and safety standard. The QS annual inspection and GMP annual inspection on quality and safety were passed; the health certificate for the export of functional food was obtained; the products were certified as up to standard upon random check by the General Administration of Quality Supervision, Inspection and Quarantine of PRC, and recognized as better quality products.

Sales Highlights

As at 31 December, 2006, the Group generated a combined sales income of RMB270,640,000, representing an increase of 32% compared with the previous year, among which the income from the sales of biological compound fertilizer products was RMB231,220,000, a 48.1% growth from the last year, The sales income contribution of those products accounted for 85.4% of the Group's combined sales income. To a certain extent, the growth in the sales of the Group's biological compound fertilizers is attributable to the advantage of "Fulilong" brand, the technological strengths, the network distribution and marketing methods.

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 RMB37,670,000 in 2006.

Personnel of the Group related to the technology, production and sales of IOL visited distributors in Henan, Shandong, Anhui, Tianjin, Beijing to conduct investigation and research, to understand opinions and suggestions from customers, keep themselves updated with information of competitive products at domestic markets and stay abreast with the trend of latest demands for IOL at the market. In addition, these personnel communicate to the distributors the business philosophy of the Company and the development prospects of the "TEDA" brand IOL, improve product quality and after-sales service quality on an ongoing basis so as to boost customers' confidence in the "TEDA" brand IOL.

Financial Status and Assets Structure

In 2006, the Company witnessed operating profits for the whole year through the sales of its "TEDA", "Alpha", "Lvzhou" and "Fulilong" products in China and the disposal of the entire equity interest in Beijing TEDAX^2 Medical Engineering Company Limited ("Beijing TEDAX^2"). 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.

Operating loss of the Group for the year ended 31 December 2006 was RMB124,000, representing an increase as compared with the same period in 2005. The finance expenses which increased due to the increase in bank loans, the general and administration expenses (including research and development expenses) increased by approximately 50.7% compared to the corresponding period in 2005. By consolidating the entire administration expenses of Guangdong Fulilong into the accounts of the Group in 2006, the Group successfully implemented 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.

The Group's asset structure as at 31 December 2006 is as follows: Total assets were RMB278,839,000. Current assets, fixed assets, investment in an associate and other non-current assets accounted for 50.7%, 35.1%, 7.3% and 6.9% of the total assets respectively.

Future Outlook

As the industry responsible for the production of resource products, agriculture will be the leading industry eternally. In the 21st century, the golden industry is in rural areas, while the rejuvenation of agricultural industry depends on the fertilizer sector, the compound fertilizer is a sunrise industry in fertilizer industry. The Group has completed rational industrial allocation in the compound fertilizer industry and established market network covering most regions around the country since it tapped into the domestic biological compound fertilizer market successfully in 2005. The Group will keep embarking on the path of self-innovation and brand building and develop its core competitiveness in enterprise development by taking advantage of the technique of producing compound fertilizer by Melt Granulation Method with High Tower and its strength in product distribution in future. It will gradually develop new technologies for compound fertilizers and new products according to the demands of the market, such as high efficiency and high quality slow/controlled release fertilizer. It will further optimize its product structure, develop formula fertilization, keep improving the service and technical standard of agricultural fertilization, pursue the brand marketing strategy, endeavour to develop "Fulilong" into a strong brand, create the core value of enterprise and enhance market recognition and reputation of the "Fulilong" brand, enlarge the scale of the Group's biological compound fertilizer business and enable the business to grow bigger and stronger.

The Company gradually strengthened its cooperation with and trust in IOL distributors to lay a solid foundation for production and sales in 2007. Meanwhile, the Company actively takes part in regional bidding activities to expand its potential market. It intends to develop products which are favourable to its own business development, in line with the national situations and cater to the demands of the market in future and continue its sound and healthy development by leveraging on the strengths of its own manufacturing enterprises that are engaged in the production of three kinds of medical devices and its independent and cooperative technical research and development.

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 2006 and the year ended 31 December 2005 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 2006, the Group's consolidated shareholders' funds, current assets and net current liabilities were about RMB68.41 million (2005: RMB65.4 million), RMB141.41 million (2005: RMB130.88 million) and RMB65.4 million (2005: net current assets of RMB21.78 million) respectively. The Group's current assets as at 31 December 2006 comprised mainly cash and bank balances of RMB11.28 million (31 December 2005: RMB16.8 million), trade receivables of RMB56.56 million (31 December 2005: RMB63.2 million) and inventories of RMB37.8 million (31 December 2005: RMB31.1 million). As at 31 December 2006, the total bank borrowings of the Group amounted to RMB104.4 million (31 December 2005: RMB51.5 million). The bank borrowings are denominated in Renminbi and provided by various licensed banks in China with fixed interest rates from 5.6% to 7.6% (31 December 2005: 5.3% to 7.3%) per annum. Of the bank borrowings, RMB30.9 million has been repaid subsequent to the year end, and a total amount of RMB25 million, RMB23 million, RMB3.5 million and RMB22 million will mature in March 2007, April 2007, May 2007 and June 2007 respectively.

Liquidity, financial resources and gearing ratio *(continued)*

As at 31 December 2006, the Group's gearing ratio, defined as the ratio of total bank borrowings to total assets, was 0.37 (31 December 2005: 0.25). The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was 0.68 (31 December 2005: 1.20).

Charges on the Group's assets and contingent liabilities

As at 31 December 2006, the Company had contingent liabilities amounting to RMB0.9 million in connection with the provision of guarantee as security for bank loans granted to it subsidiaries (31 December 2005: RMB1 million).

Material acquisitions and disposals

Major and connected transactions-Acquisition of the remaining 49% equity in Guangdong Fulilong

On 25 June 2006, the Company, Wantai (a wholly-owned subsidiary of the Group) and other shareholders of Guangdong Fulilong (including: (i) Mr. Cao Ai Xin, having invested RMB6,944,000 into the registered capital of Guangdong Fulilong prior to the acquisition (approximately accounting for 42.53%); (ii) Mr. Huang Kun Yao, having invested RMB800,000 into the registered capital of Guangdong Fulilong prior to the acquisition (approximately accounting for 4.9%); (iii) Ms. Zhang Li Zhi, having invested RMB160,000 into the registered capital of Guangdong Fulilong prior to the acquisition (approximately accounting for 0.98%); (iv) Mr. Huang Chuan Rong, having invested RMB48,000 into the registered capital of Guangdong Fulilong prior to the acquisition (approximately accounting for 0.29%); and (v) Mr. Gan Shi Fan having invested RMB48,000 into the registered capital of Guangdong Fulilong prior to the acquisition (approximately accounting for 0.29%)) entered into an equity transfer agreement with Guangdong Fulilong. The Company and Wantai conditionally agree to acquire the remaining 49% equity in Guangdong Fulilong from other shareholders of Guangdong Fulilong. Upon the completion of acquisition, Guangdong Fulilong, in which the Company already held 51% equity prior to the acquisition, will become a wholly-owned subsidiary of the Group. The consideration for the acquisition was RMB33,402,971.87 (about HK$32,118,242.18) and was arrived at after arm's length negotiation among the parties to the equity transfer agreement having taken into account not only the audited net asset value of Guangdong Fulilong of approximately RMB68,169,330.35 as at 31 December 2005 (calculated with generally accepted accounting principles in China), but also the RMB16,326,500 sales equity in Guangdong Fulilong's registered capital. The consideration was paid by cash, among which RMB19,000,000 was financed with the internal funds of the Group. In addition, RMB15,000,000 was paid by bank loans (secured by the Group's product inventory). 10% of the consideration was paid to other shareholders of Guangdong Fulilong upon the execution of the equity transfer agreement as a deposit. The remaining 90% must be paid to other shareholders of Guangdong Fulilong when the two prerequisites required in the equity transfer agreement are met. Guangdong Fulilong was established in August 1996, and commenced its core business of the production and sales of compound fertilizers from September 1996; In December 2005, the Company completed the subscription of 51% equity in the registered capital of Guangdong Fulilong (as enlarged by the Company's subscription.).

As announced by the Company on 5 January 2007, the application of Guangdong Fulilong for the land use right certificate in respect of one piece of collective construction land in Dongguan, the People's Republic of China occupied by it for its production workshops was still being processed and the relevant land use right certificate has not been granted to Guangdong Fulilong. The Company shall issue an announcement as soon as practicable after obtaining the land use right certificate by Guangdong Fulilong.

Discloseable transaction-disposal of a subsidiary

On 12 December 2006, the Company entered into an equity transfer agreement, pursuant to which the Company and Wantai agreed to dispose of all its equity interest in Beijing TEDAX[2] Medical Engineering Company Limited, to Shenzhen Xiangyong Investment Consulting Co., Ltd. at a cash consideration of RMB3,000,000 (about HK$2,970,297). According to the GEM Listing Rules, the disposal constituted a discloseable transaction of the Company. The Company has, pursuant to the requirements of the GEM Listing Rules sent a circular containing details of the transaction to the shareholders of the Company on 20 December 2006. The consideration of the equity transfer agreement in an amount of RMB3,000,000 (about HK$2,970,297) was arrived at after arm's length negotiation among the parties to the equity transfer agreement with reference to the net asset value of TEDAX[2] on 30 June 2006 in the amount of RMB3,022,200, as stated in the assets valuation report. The consideration payable will be paid in two installments: 10% within one month after the completion of disposal; the balance within six months from the completion of disposal. Based on the net proceeds of RMB3,000,000 and the net asset value of TEDAX[2] as at 30 June 2006 in an amount of RMB3,022,200 as stated in the assets valuation report, the equity interest in TEDAX[2] will be sold at a discount rate of 0.73%, resulting in a loss of approximately RMB22,200 (approximately HK$21,980) recorded by the Company and Wantai. The audited turnover and net asset value of TEDAX[2] for the year ended 31 December 2005 and the unaudited turnover and net asset value for the six months ended 30 June 2006, were significantly reduced. Therefore, in the opinions of the directors of the Company, the consideration of RMB3,000,000 (about HK$2,970,297) is fair and reasonable and the disposal of TEDAX[2] is in the interests of the Company and its shareholders as a whole.

Employees and remuneration policies

As at 31 December 2006, the Group had 668 employees (2005: 293 employees). Remunerations 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 2006, the staff costs of the Group were approximately RMB17.54 million (2005: RMB7.32 million). The increase in staff costs was mainly due to the significant increase in the number of the Group's staff after the acquisition of Guangdong Fulilong, which led to an increase in fringe benefits.

Exposure to foreign currency risk

The Group has a minimal foreign currency risk since all the sales of the Group are domestic sales in China denominated in Renminbi and all payables to suppliers are also denominated in Renminbi.

Treasury Policy

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 and June 2005 have 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 section headed "Reasons for the Placing and Use of Proceeds" in the Circular dated 5 November 2004 and the section headed "Management Discussion and Analysis" in the 2005 Annual Report. In the meantime, any surplus cash is placed as time deposits with licensed banks in China.

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 2006, the Group has utilized the net proceeds as follows:

(RMB million)	Use of proceeds as stated in the prospectus	Use of proceeds from the placing of new H shares 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 2006
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 commercialization of products	35.2	6.3	41.5	14.7
Establishment of treatment centre	5.0	0.0	5.0	0
Investment in suitable projects	0.0	22.0	22.0	32.5
Working Capital	10.0	0.0	10.0	47.8
Total	74.5	33.5	108.0	108.0

For details, please refer to the 2002 annual report and 2003, 2004 and 2005 annual reports and quarterly reports of the Company.

During the year 2006, the funding for the expansion of marketing and distribution network and working capital was sourced from bank borrowings from licensed banks in China. 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 42, is the Chairman of the Board of Directors of the Company and its subsidiaries 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 University of Finance and Economics (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 50, 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.

Mr. Zhang Songhong, aged 44, received his education in the People's Republic of China (the "PRC"). He worked in various governmental authorities in Shenzhen, China during the period from September 1985 to December 1995. Mr. Zhang has been the chairman of the board of directors of Fulilong. From the end of 2005, 4 January, 2006 and 15 June 2006, Mr. Zhang was again respectively appointed as a director of Fulilong, the CEO and executive director of the Company. He resigned from his post of the CEO of the Company on 10 August, 2006.

Directors *(continued)*

Non-executive Directors

Mr. Feng Enqing, aged 48, 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 in September 2000.

Mr. Xie Guangbei, aged 52, 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 34, 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) and the director of Tianjin TEDA Company Limited (天津泰達股份有限公司). Mr. Liu joined the Company as a non-executive director in November 2003.

Independent non-executive Directors

Professor Xian Guoming, aged 55, 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 and Nankai Gede Co., Ltd.,. He specializes in research on inter national investments by multi-national corporations. Professor Xian was appointed as an independent non-executive director of the Company in August 2001.

Mr. Guan Tong, aged 38, graduated from the Enterprise Management Faculty (企業管理系) of Nankai University (南開大學) of China 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.

Directors *(continued)*

Independent non-executive Directors *(continued)*

Mr. Wu Chen, aged 62, graduated from the Chemical Engineering Department of Tianjin College of Engineering in 1970. He was awarded the second prize of excellent scientific and technological achievements – N.P. compound fertilizer project in 1982. In April 1990 and December 1991, Mr. Wu was respectively awarded the second and the third prizes by Tianjin Nanjiao District People's Government and Validation Committee of National Spark Award (國家星火獎評審委員會) for his contributions in the transformation of compound fertilizer production line and the development of series of compound fertilizer products. In addition, he was recognized as the senior engineer by the Tianjin Engineering, Technological and Chemical Professional Senior Qualification Review Committee (天津市工程技術化工專業高級資格評審委員會) and given a certificate by Tianjin Municipal Personnel Bureau (天津人事局) in April 1996.

Supervisors

Mr. Zhao Tingying, aged 31, graduated from the Accounting Department of Tianjin University of Finance and Economics with a bachelor's degree in Economics in 1998. He joined Tianjin TEDA International Incubator (TTII), the controlling shareholder of the Company, in July 1998 as the financial supervisor of TTII's Planning and Finance Department, and assumed the posts of financial supervisor, investment supervisor and investment manager after joining the Company in May 2001. In September 2004 Mr. Zhao was appointed as the director and general manager of Shandong TEDA Bioengineering Co., Ltd., a subsidiary of the Company, and was appointed as a supervisor of the Company in February 2007.

Mr. Yuan Wei, aged 56, 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 Wei was appointed as a supervisor of the Company in 2000 September.

Independent Supervisors

Mr. Wang Xiaofa, aged 41, graduated from Dongbei University of Finance and Economics in April 1996 with a master's degree in Economics.

Mr. Gao Xianbiao, aged 45, graduated from the Agricultural Soil Department (土壤農化系) of Shandong Agricultural Industry University (山東農業大學) in 1982. He has got a technical post of researcher since December 1999. He was the deputy chief and the chief of Soil and Fertilizer Research Institute of Shandong Academy of Agricultural Science (山東省農業科學院土壤肥料研究所) during the periods from October 1997 to October 1999 and from October 1999 to December 2004 respectively. Since December 2004, he has been the chief of Tianjin Soil and Fertilizer Research Institute (天津市土壤肥料研究所) (now known as Tianjin Agricultural Resource and Environmental Research Institute (天津市農業資源和環境研究所)). During the period from December 1995 to October 2000, Mr. Gao was granted with a number of the Science and Technology Progress Awards (科學技術進步獎) in Shandong Province.

Senior Management

Chief Executive Officer

Mr. Hao Zhihui, aged 45, graduated from Tianjin Medical University in August 1984 with bachelor's degree in medicine and taught in the University. He then graduated from Tianjin Medical University in August 1992 with master's degree in medicine. From May 1995 to August 1997, he was in charge of production and technology in DPC (Tianjin) Co., Ltd (天津德普生物技術和醫學產品有限公司). From September 1997 to September 2000, he worked in TTII and was the chief of the Medicine Industry Department (醫藥產業部部長). In March 2004, he graduated from the School of Continuing Education of Tsinghua University, Business Administration Major. From September 2000 to August 2006, he has assumed the posts of chief investment officer, chairman of the Supervisory Committee and Executive vice president (常務副總裁) in the Company. He has been the President of the Company since August 2006.

Qualified Accountant and Company Secretary

Mr. Ng Ka Kuen, Raymond, aged 46, 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,

In accordance with the Company Law of the People's Republic of China, relevant laws and regulations of Hong Kong, and the Articles of Association of the Company, all members of the Supervisory Committee of Tianjin TEDA Biomedical Engineering Company Limited performed their duties and carried out various work on a bona fide and diligent basis with reasonable prudence so as to effectively supervise the standardized operations of the Company and to protect the interests of its shareholders and the Company.

I. Meeting of the Supervisory Committee and Particulars of Resolutions

On 12 May 2006, the seventh 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 2006 of the Company was reviewed and approved;

On 10 August 2006, the eighth 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 2006 of the Company was reviewed and approved;

On 10 November 2006, the ninth 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 2006 of the Company was reviewed and approved.

On 26 March 2007, the tenth 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 2006 audited by Horwath Hong Kong CPA Limited and the proposal on electing the chairman of the new Supervisory Committee were reviewed and approved.

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

Since September 2006, the Company strived to place 340,000,000 new H shares and made full preparations for further business development. The management of the Company continued to proactively explore opportunities and achieved continuous growth in operating results. During the period, members of the Supervisory Committee supervised the decision making process of the management of the Company by attending the meetings of the Board.

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

The auditor's report issued by Horwath Hong Kong CPA Limited truly, fairly and accurately reflects the Group's financial position and operating results.

II. Jobs Carried Out by the Supervisory Committee during the Reporting Period *(continued)*

The Supervisory Committee carefully reviews and agrees with the report of the directors, and audited financial reports proposed by the board of directors to be submitted to the Annual General Meeting. The Supervisory Committee believes that all directors and the senior management strictly follow the principle of good faith, and act in the best interests of the Company, comply with the Company's Articles of Association and endeavour to establish and improve the internal control system. All directors and other executives have performed their duties on a bona fide and diligent basis, and carried out business operations according to law and regulated the Company's management. 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.

By order of the Supervisory Committee
Tianjin TEDA Biomedical Engineering Company Limited
Chairman of the Supervisory Committee
Zhao Tingying

26 March 2007

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

For the year ended 31 December 2006, 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 of the Company have complied with such code of conduct and the required standard of dealings.

Board of Directors and Board Meeting

Board Composition and Board Practices

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, 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 members for the year ended 31 December 2006 were:–

Executive Directors

Mr. Wang Shuxin (王書新)
Mr. Xie Kehua (謝克華)
Mr. Zhang Songhong (張松鴻) (appointed on 15 June 2006)
Ms. Zheng Dan (鄭丹) (resigned on 30 April 2006)

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. Guan Tong (關彤)
Mr. Wu Chen (吳琛) (appointed on 12 September 2006)
Mr. Chan Yip Kai Philip (陳協佳) (resigned on 27 July 2006)

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 chairing and convening the general meetings, chairing the board meetings, examining the implementation of the resolutions 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.

During the period under review, the Company has 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. On 4 January 2006, the Board appointed Mr. Zhang Songhong as the Chief Executive Officer of the Company, so the roles of Chairman and Chief Executive Officer are separated and are not concurrently assumed by the same person so as to increase the transparency and independence of corporate governance. After the resignation of Mr. Zhang as the Chief Executive Officer from 10 August 2006, Mr. Hao Zhihui was appointed to act as the new Chief Executive Officer to be responsible for the management of the Board and the Group's business, and on the same day, Mr. Hao Zhihui resigned from the post of chairman of the Supervisory Committee, in order to comply with the provision under the Articles of Association that "no director, general manager and financial officer of the Company are allowed to act as a supervisor of the Company concurrently".

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 directions 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 period under review, one of our independent non-executive Directors. Mr. Chan Yip Kai Philip resigned his directorship on 27 July 2006. 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.

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. The appointment of Mr. Wu Chen on 12 September 2006 has placed the Company in compliance with such requirements again since then and the term of office of whom will expire on 31 December 2007. The term of office may be renewed for another three years after approved by shareholders at the Company's general meeting.

Board of Directors and Board Meeting *(continued)*

Board Composition and Board Practices *(continued)*

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.

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 judgment.

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 twelve 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 Board held twelve meetings in 2006, and 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)	12/12
Mr. Xie Kehua (謝克華)	12/12
Mr. Zhang Songhong (張松鴻) (Appointed on 15 June 2006)	5/9
Ms. Zheng Dan（鄭丹）(Resigned on 30 April 2006)	2/2
Non-executive Directors	
Mr. Feng Enqing (馮恩慶)	11/12
Mr. Liu Zhenyu (劉振宇)	6/12
Mr. Xie Guangbei (謝光北)	7/12
Independent non-executive Directors	
Professor Xian Guoming (冼國明)	5/12
Mr. Guan Tong (關彤)	11/12
Mr. Wu Chen (吳琛) (appointed on 12 September 2006)	5/6
Mr. Chan Yip Kai Philip（陳協佳）(resigned on 27 July 2006)	3/4

Board of Directors and Board Meeting *(continued)*

Board Composition and Board Practices *(continued)*

Board papers are circulated not less than 15 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 meetings. 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. Wu Chen (吳琛) 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 held two general meetings in the conference room of the Company on 12 May and 10 August 2006.

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.

Nomination Committee

The Company's Nomination Committee was established on 10 August 2006 and together with the Remuneration Committee was renamed as the "Nomination and Remuneration Committee". As at 31 December 2006, chairman of the Committee were Mr. Xie Guangbei, the non-executive director, and the other two members were independent non-executive directors Mr. Wu Chen and Mr. Guan Tong. The Nomination Committee is responsible for formulating nomination policies, and gives its suggestions to the Board of Directors on nomination and appointment of directors and the succession of the Board of Directors. The Committee will also formulate the procedures for the selection of nominated persons, discuss the scale, structure and organization of the Board of Directors and assess the independence of independent non-executive directors. The Committee will provide sufficient resources so as to enable its members to perform their duties. When there is a vacancy of director or an additional director is deemed necessary, any member of the Nomination may be authorized to identify suitable candidates to assume the post of director. As soon as suitable persons are selected, the member of the Nomination Committee will propose to the Nomination Committee to appoint such persons, and the Nomination Committee will review the qualifications, experiences and background of the selected persons concerned, so as to decide whether they are suitable for the Group. Selected persons approved by the Nomination Committee will be recommended to the Board of Directors for final examination and approval, or (if applicable) to the Company's Annual General Meeting for approval from shareholders. Upon request, the written terms of reference of the Nomination Committee will be provided to shareholders of the Company.

Nomination Committee *(continued)*

During 2006, two meetings of remuneration committee were held, the attendance of which is shown in the following table:

Name of directors	Attendance/Number of Meetings held
Mr. Xie Guangbei (謝光北)	2/2
Mr. Guan Tong (關彤)	2/2
Mr. Wu Chen (吳琛) (appointed on 12 September 2006)	1/1
Mr. Chan Yip Kai Philip (陳協佳) (resigned on 27 July 2006)	1/1

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 four 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 qualified opinions 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)	3/4
Mr. Guan Tong (關彤)	4/4
Mr. Wu Chen (吳琛) (appointed on 12 September 2006)	1/1
Mr. Chan Yip Kai Philip (陳協佳) (resigned on 27 July 2006)	2/2

Throughout the year under review, the audit committee discharged its responsibilities, reviewed and discussed the Group's unaudited quarterly results and unaudited interim results for 2006 and the audited financial statements for the year ended 31 December 2005 and the 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

Horwath Hong Kong CPA Limited, Certified Public Accountants ("Horwath"), had been recommended by the audit committee and appointed by the shareholders as the External Auditors of the Company and its subsidiaries with effect from 8 May 2006 until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the financial year ended 31 December 2006 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 2006 (for the year ended 31 December 2005: Horwath).

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 2006 RMB'000**	for the year ended 31 December 2005 RMB'000
Audit for the Group	**910**	976

Directors' Responsibility for the Financial Statements

The Directors acknowledge 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 Hong Kong CPA Limited, about their reporting responsibilities on the financial statements of the Group is set out in the Auditor's Report on page 42 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(b) to the accompanying audited financial statements for the year ended 31 December 2006.

Internal Control

The Company has conducted a review of its system of internal control periodically to ensure that it has adopted an effective and adequate internal control system. The Company convened meetings periodically to discuss financial, operational and risk management control measures. The audit committee also reviews the internal control systems and evaluates 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 endeavors 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 2006.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Company are research, development and commercialization of biological fertilizer products, and medical and health products.

The activities of the subsidiaries are set out in Note 16 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

Details of the movements in share capital of the Company are set out in Note 27 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 43 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 48 of this annual report and Note 28 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 13 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 2006 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)
Mr. Zhang Songhong (張松鴻) (appointed on 15 June 2006)
Ms. Zheng Dan (鄭丹) (resigned on 30 April 2006)

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)
Mr. Guan Tong (關彤) (appointed on 22 September 2005)
Mr. Wu Chen (吳琛) (appointed on 12 September 2006)
Mr. Chan Yip Kai Philip (陳協佳) (resigned on 27 July 2006)

Supervisors:

Mr. Hao Zhihui (郝志輝) (resigned on 10 August 2006)
Mr. Zhao Tingying (趙挺穎) (appointed on 14 February 2007)
Mr. Yuan Wei (袁偉) (re-elected on 1 January 2005)

Independent Supervisors:

Mr. Wang Xiaofa (王校法) (appointed on 12 September 2006)
Mr. Gao Xianbiao (高賢彪) (appointed on 14 February 2007)
Mr. Chang Zheng (常崢) (resigned on 27 July 2006)
Mr. Zhu Gang (祝剛) (resigned on 26 December 2006)

After the resignation of Ms. Zheng Dan (鄭丹) as executive director on 30 April, 2006, Mr. Zhang Songhong (張松鴻) was appointed as executive director on 15 June 2006; after the resignation of Mr. Chan Yip Kai Philip (陳協佳) as independent non-executive director on 6 July 2006, Mr. Wu Chen (吳琛) was appointed as independent non-executive director on 12 September 2006, such that the number of executive directors and of independent non-executive directors of the Company maintained at three respectively. After the resignation of Mr. Hao Zhihui (郝志輝) as a supervisor on 10 August, 2006, Mr. Zhao Tingying (趙挺穎) was appointed a supervisor on 14 February 2007; after the resignation of Mr. Chang Zheng (常崢) and Mr. Zhu Gang (祝剛) as independent supervisors on 27 July 2006 and 26 December 2006 respectively, Mr. Wang Xiaofa (王校法) and Mr. Gao Xianbiao (高賢彪) were appointed as independent supervisor on 12 September 2006 and 14 February 2007, such that the number of supervisors of the Company maintained at four, including two independent supervisors.

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. Zhang Songhong (張松鴻), Mr. Guan Tong (關彤) and Mr. Wu Chen (吳琛)) 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. Zhang Songhong (張松鴻), Mr. Guan Tong (關彤) and Mr. Wu Chen (吳琛) are for an initial term of three years commencing on 15 June 2006, 22 September 2005 and 12 September 2006 until 31 December 2007, 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.

As to the remunerations of the directors and supervisors of the Company for the year ending 31 December 2007, 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 2006 were as follows:

	RMB
Mr. Wang Shuxin (王書新)	325,488
Mr. Xie Kehua (謝克華)	234,382
Mr. Zhang Songhong (張松鴻) (appointed on 15 June 2006)	202,305
Ms. Zheng Dan (鄭丹) (resigned on 30 April 2006)	60,622

The emoluments of the non-executive directors of the Company for the year ended 31 December 2006 were as follows:

	RMB
Mr. Feng Enqing (馮恩慶)	15,000
Mr. Liu Zhenyu (劉振宇)	15,000
Mr. Xie Guangbei (謝光北)	15,000

The emoluments of the independent non-executive directors of the Company for the year ended 31 December 2006 were as follows:

	RMB
Professor Xian Guoming (冼國明教授)	15,000
Mr. Guan Tong (關彤)	15,000
Mr. Wu Chen (吳琛) (appointed on 12 September 2006)	–
Mr. Chan Yip Kai Philip (陳協佳) (resigned on 27 July 2006)	143,842

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

The emoluments of the supervisors and independent supervisors of the Company for the year ended 31 December 2006 were as follows:

	RMB
Mr. Hao Zhihui (resigned on 10 August 2006)	226,115
Mr. Zhao Tingying (appointed on 14 February 2007)	–
Mr. Yuan Wei (袁偉)	44,361
Mr. Wang Xiaofa (appointed on 12 September 2006)	–
Mr. Gao Xianbiao (appointed on 14 February 2007)	–
Mr. Chang Zheng (常崢) (resigned on 27 July 2006)	–
Mr. Zhu Gang (祝剛) (resigned on 26 December 2006)	10,000

(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. Wu Chen 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 18 to 21 of this annual report.

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

As at 31 December 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:

	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

Save as disclosed in this paragraph, as at 31 December 2006, 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 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 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	32,180,000 (Note 2)	5.28%

Notes:

1. All represented domestic shares.

2. All represented H shares.

Save as disclosed above, as at 31 December 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.

Placing

As mentioned in the announcement made by the Company on 5 September 2006, a Preliminary Placing Agreement was entered into between the Company and China Merchants Securities (HK) Co., Ltd., its financial advisor and placing agent ("Placing Agent") on 4 September 2006, pursuant to which the Placing Agent on a best effort basis has agreed to place, subject to all the conditions below (including the execution of the Definitive Placing Agreement), an aggregate of not more than 374 million H Shares at the Placing Price.

Placing *(continued)*

The newly placed H shares are equivalent to approximately 61.31% of the Company's existing issued share capital and 39.37% of the Company's issued share capital immediately upon completion of the Placing (assuming the maximum number of the New Placing H Shares have been issued). The Placing Price will be determined upon execution of the Definitive Placing Agreement. However, the Company and the Placing Agent is now considering the determination of the Placing Price with reference to the average of the closing price of the H Shares for the 5 consecutive trading days before the date of execution of the Definitive Agreement subject to a discount of not more than 10% but the Placing Price should not in any way be less than the net asset value per H Share. Based on the maximum number of the New H Shares of 340 million to be issued under the Placing and the indicative placing price of approximately HK$0.1845 per New H Share (being a discount of 10% to the average closing price of the H Shares as quoted on GEM for the 5 consecutive trading days ended on 4 September 2006), the gross proceeds from the placing of the New H Shares are estimated to be approximately HK$62.73 million and the net proceeds from the placing of the New H Shares after deducting related expenses are estimated to be approximately HK$55 million. As stated in the State-owned Shares Reduction Regulations, such number of state-owned shares in a joint stock company equivalent to 10% of its proceeds in issuing new shares should be sold. As TTII is a state-owned enterprise and pursuant to the State-owned Shares Reduction Regulations, TTII is required to convert such numbers of its Domestic Shares equivalent to 10% of the Company's proceeds from the Placing into the Sale H Shares, In such case, TTII shall convert not more than its 34 million Domestic Shares into equal number of Sale H Shares.

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 2006, 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	15.7%
–	five largest suppliers combined	35.8%

Sales

–	the largest customer	7%
–	five largest customers combined	21%

Connected Transactions

Significant related party transactions entered by the Group during the year ended 31 December 2006, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in Note 34 to the accompanying financial statements.

Major acquisition and disposal

Disposal

On 12 December 2006, the Company entered into an equity transfer agreement, pursuant to which the Company and its wholly-owned subsidiary Tianjin Wan Tai Bio-Development Company Limited agreed to dispose of all its equity interest in Beijing TEDAX[2] Medical Engineering Company Limited, to Shenzhen Xiangyong Investment Consulting Co., Ltd at a cash consideration of RMB3,000,000 (about HK$2,970,297). According to the GEM Listing Rules, the disposal of all the equity interests in TEDAX[2], by the Company and Wantai, constituted a discloseable transaction of the Company. The Company has, pursuant to the requirements of the GEM Listing Rules sent a circular containing details of the transaction to the shareholders of the Company on 20 December 2006. The consideration of the equity transfer agreement in an amount of RMB3,000,000 (about HK$2,970,297) was arrived at after arm's length negotiation among the parties to the equity transfer agreement with reference to the net asset value of TEDAX[2] on 30 June 2006 in the amount of RMB3,022,200, as stated in the assets valuation report. The consideration payable will be paid in two installments: 10% within one month after the completion of disposal; the balance within six months from the completion of disposal. Based on the net proceeds of RMB3,000,000 and the net asset value of TEDAX[2] as at 30 June 2006 in an amount of RMB3,022,200 as stated in the assets valuation report, the equity interest in TEDAX[2] will be sold at a discount rate of 0.73%, resulting in a loss of approximately RMB22,200 (approximately HK$21,980) recorded by the Company and Wantai. The audited turnover and net asset value of TEDAX[2] for the year ended 31 December 2005 and the unaudited turnover and net asset value for the six months ended 30 June 2006, were significantly reduced. Therefore, in the opinions of the directors, the consideration of RMB3,000,000 (about HK$2,970,297) is fair and reasonable and the disposal of TEDAX[2] is in the interests of the Company and its shareholders as a whole.

Acquisition

On 25 June 2006, the Company, Wantai (a wholly-owned subsidiary of the Group) and other shareholders of Fulilong (including: (i) Mr. Cao Ai Xin, having invested RMB6,944,000 into the registered capital of Fulilong prior to the acquisition (approximately accounting for 42.53%); (ii) Mr. Huang Kun Yao, having invested RMB800,000 into the registered capital of Fulilong prior to the acquisition (approximately accounting for 4.9%); (iii) Ms. Zhang Li Zhi, having invested RMB160,000 into the registered capital of Fulilong prior to the acquisition (approximately accounting for 0.98%); (iv) Mr. Huang Chuan Rong, having invested RMB48,000 into the registered capital of Fulilong prior to the acquisition (approximately accounting for 0.29%); and (v) Mr. Gan Shi Fan having invested RMB48,000 into the registered capital of Fulilong prior to the acquisition (approximately accounting for 0.29%)) entered into an equity transfer agreement with Fulilong. The Company and Wantai conditionally agree to acquire the remaining 49% equity in Fulilong from other shareholders of Fulilong. Upon the completion of acquisition, Fulilong, in which the Company held 51% equity prior to the acquisition, will become a wholly-owned subsidiary of the Group. The consideration for the acquisition was RMB33,402,971.87 (about HK$32,118,242.18) and was arrived at after arm's length negotiation among the parties to the equity transfer agreement having taken into account not only the audited net asset value of Fulilong of approximately RMB68,169,330.35 as at 31 December 2005 (calculated with generally accepted accounting principles in China), but also the RMB16,326,500 sales equity in Fulilong's registered capital. The consideration was paid by cash, among which RMB19,000,000 was financed with the internal funds of the Group. In addition, RMB15,000,000 was paid by bank loans (secured by the Group's product inventory). 10% of the consideration was paid to other shareholders of Fulilong upon the execution of the equity transfer agreement as a deposit. The remaining 90% must be paid to other shareholders of Fulilong when the following two prerequisites are met. Fulilong was established in August 1996, and commenced its core business of the production and sales of compound fertilizers from September 1996; In December 2005, the Company completed the subscription of 51% equity in the registered capital of Fulilong (to be enlarged by the Company's subscription).

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 China 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

- 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 China 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

Share Option Scheme *(continued)*

• 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
• Basis of determination of	The higher of (i) the closing price of the H stated in the Stock Exchange's Shares as the exercise pricedaily 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 preceding the date of offer and (iii) the nominal value of a H Share.
• The remaining life of	The Scheme re mains in force until 24 May 2012 unless otherwise the Scheme terminated under the terms of the Scheme.

During the year ended 31 December 2006, 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. Wu Chen and Mr. Guan Tong.

Four meetings were held during the current financial year, including the meeting held for the review of the financial statements for the year ended 31 December, 2006.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 24 to 30 of this annual report.

Auditors

On 30 November 2005, Horwath Hong Kong CPA Limited were appointed as auditors of the Company to fill the casual vacancy caused by the resignation of PricewaterhouseCoopers. There has been no other changes of auditors in the past years.

Horwath Hong Kong CPA Limited was re-appointed on 8 May 2006 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 2006 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, China, 26 March 2007

Horwath Hong Kong CPA Limited
Certified Public Accountants
2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
horwath@horwath.com.hk
www.horwath.com.hk

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 consolidated financial statements of Tianjin Teda Biomedical Engineering Company Limited (the "Company") set out on pages 43 to 87, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards 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

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Chan Kam Wing, Clement
Practising Certificate number P02038

26 March 2007

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	**2006**	2005
		RMB	RMB
Turnover	4(a)	**270,639,221**	205,031,866
Cost of sales		**(227,013,769)**	(173,701,093)
Gross profit		**43,625,452**	31,330,773
Other revenue	4(a)	**6,587,070**	7,784,038
Distribution and selling expenses		**(20,795,398)**	(19,532,334)
Administrative expenses		**(26,165,305)**	(18,319,829)
Research and development expenses		**(3,375,657)**	(1,286,831)
Operating loss		**(123,838)**	(24,183)
Finance costs	5	**(7,470,936)**	(4,116,835)
Share of results of an associate		**163,849**	–
Negative goodwill arising on acquisition of a subsidiary	6	**3,126,187**	2,046,605
Gain on disposal of subsidiaries	31	**6,869,968**	663,161
Profit/(loss) before taxation	7	**2,565,230**	(1,431,252)
Taxation	8(a)	**(326,253)**	(244,496)
Profit/(loss) for the year		**2,238,977**	(1,675,748)
Attributable to:			
Equity shareholders of the Company	9	**3,034,418**	772,746
Minority interests		**(795,441)**	(2,448,494)
		2,238,977	(1,675,748)
Earnings per share	11	**0.50 cents**	0.15 cents

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	Note	2006 RMB	2005 RMB
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	**97,854,782**	41,487,154
Proprietary technologies	14	**–**	1,408,290
Goodwill on consolidation	15	**3,133,932**	3,367,001
Interests in an associate	17	**20,299,553**	24,810,805
Trade receivables	20(c)	**3,348,169**	4,794,540
Other receivables	21	**9,456,816**	867,488
Lease prepayments	18	**3,335,915**	652,092
		137,429,167	77,387,370
Current assets			
Inventories	19	**37,844,710**	31,147,537
Trade receivables	20	**56,559,434**	63,189,887
Prepayments and other receivables	21	**24,128,680**	16,925,499
Amount due from an associate		**397,677**	–
Amounts due from related parties	22	**2,651,716**	2,848,008
Restricted bank deposits	23	**8,550,000**	–
Cash and bank balances		**11,277,587**	16,767,411
		141,409,804	130,878,342
Current liabilities			
Trade and bills payables	24	**39,269,550**	20,907,603
Other payables and accruals		**29,386,521**	29,152,253
Government grants received in advance		**–**	1,402,008
Amounts due to related parties	22	**–**	5,792,949
Short-term bank borrowings	25	**104,400,000**	51,500,000
Amounts due to ex-shareholders of a subsidiary	6	**33,402,972**	–
Current portion of finance lease payable	26	**346,816**	346,816
		206,805,859	109,101,629
Net current (liabilities)/assets		**(65,396,055)**	21,776,713
Total assets less current liabilities carried forward		**72,033,112**	99,164,083

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	Note	2006 RMB	2005 RMB
Total assets less current liabilities brought forward		**72,033,112**	99,164,083
Non-current liabilities			
Finance lease payable	26	**(1,290,878)**	(1,290,878)
Net assets		**70,742,234**	97,873,205
Equity			
Capital and reserves			
Share capital	27	**61,000,000**	61,000,000
Reserves		**7,407,922**	4,373,504
Equity attributable to equity shareholders		**68,407,922**	65,373,504
Minority interests		**2,334,312**	32,499,701
Total equity		**70,742,234**	97,873,205

These financial statements were approved and authorised for issue by the board of directors on 26 March 2007:

Wang Shuxin
Director

Xie Kehua
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2006

	Note	2006 RMB	2005 RMB
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	**6,465,453**	7,770,566
Interests in subsidiaries	16	**173,010,132**	100,817,687
Other receivables	21	**9,456,816**	867,488
		188,932,401	109,455,741
Current assets			
Inventories	19	**3,140,724**	2,535,676
Prepayments and other receivables	21	**6,745,214**	6,923,554
Amounts due from related parties	22	**2,651,216**	2,995,502
Cash and bank balances		**4,857,835**	9,393,959
		17,394,989	21,848,691
Current liabilities			
Trade payables	24	**150,353**	605,022
Other payables and accruals		**4,689,375**	6,832,503
Amounts due to related parties	22	**–**	1,197,234
Short-term bank borrowings	25	**100,000,000**	47,000,000
Amounts due to ex-shareholders of a subsidiary	6	**29,994,505**	–
Current portion of finance lease payable	26	**346,816**	346,816
		135,181,049	55,981,575
Net current liabilities		**(117,786,060)**	(34,132,884)
Total assets less current liabilities		**71,146,341**	75,322,857
Non-current liabilities			
Finance lease payable	26	**(1,290,878)**	(1,290,878)
Net assets		**69,855,463**	74,031,979

The accompanying notes form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2006

	Note	2006	2005
		RMB	RMB
Equity			
Capital and reserves			
Share capital	27	**61,000,000**	61,000,000
Reserves	28	**8,855,463**	13,031,979
Total equity		**69,855,463**	74,031,979

These financial statements were approved and authorised for issue by the board of directors on 26 March 2007:

Wang Shuxin
Director

Xie Kehua
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

	Share capital (Note 27)	Share premium	Capital reserve	Accumulated losses	Attributable to equity shareholders of the Company	Minority interests	Total
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
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**
Capital contribution from a minority shareholder	–	–	–	–	–	7,159,210	7,159,210
Acquisition of additional interest in a subsidiary	–	–	–	–	–	(36,529,158)	(36,529,158)
Profit/(loss) for the year	–	–	–	3,034,418	3,034,418	(795,441)	2,238,977
Balance as at 31 December 2006	**61,000,000**	**75,089,571**	**2,541,404**	**(70,223,053)**	**68,407,922**	**2,334,312**	**70,742,234**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 RMB	2005 RMB
Operating activities			
Cash generated from operations	29(a)	**8,752,039**	13,143,791
Income tax paid		**–**	(244,496)
Interest paid		**(7,470,936)**	(4,116,835)
Net cash generated from operating activities		**1,281,103**	8,782,460
Investing activities			
Investment in a subsidiary	16(i)	**(500,000)**	–
Acquisition of a subsidiary, net of cash acquired	30	**–**	(28,541,800)
Disposal of subsidiaries	29(c) & 31	**3,140,360**	(958,347)
Capital contribution to an associate	17	**(18,000,000)**	–
Repayment of amount due from an associate		**22,675,101**	–
Additions to property, plant and equipment		**(63,132,750)**	(17,834,430)
Purchase of proprietary technologies		**–**	(24,000)
Payments to acquire lease prepayments		**(3,000,000)**	–
Proceeds from disposal of property, plant and equipment		**194,958**	292,222
(Increase)/decrease in restricted bank deposits		**(8,550,000)**	25,043,950
Interest received		**342,193**	754,993
Net cash used in investing activities		**(66,830,138)**	(21,267,412)
Financing activities			
Issue of share capital		**–**	34,057,620
Additions of short-term bank borrowings		**53,900,000**	48,000,000
Repayment of short-term bank borrowings		**(1,000,000)**	(58,800,000)
Capital contribution from a minority shareholder		**7,159,210**	–
Net cash generated from financing activities		**60,059,210**	23,257,620
Net (decrease)/increase in cash and cash equivalents		**(5,489,825)**	10,772,668
Cash and bank balances at beginning of year		**16,767,412**	5,994,744
Cash and bank balances at end of year		**11,277,587**	16,767,412

The accompanying notes form part of these financial statements.

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 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 biological compound fertilizer products, medical and health products. The activities of the subsidiaries are set out in Note 16 below.

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

- HKAS 21 Amendment — Net Investment in a Foreign Operation
- HKAS 39 & HKFRS 4 Amendments — Financial Guarantee Contracts
- HKAS 39 Amendment — The Fair Value Option
- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HK(IFRIC)–Int 4 — Determining whether an Arrangement Contains a Lease

(a) HKAS 21 "The Effect of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 and 2005.

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements as the Group did not have any guarantee given during the year or on balance sheet date.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The adoption of this amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transaction, this amendment has had no effect on these financial statements.

(EXPRESSED IN RENMINBI DOLLARS)

2. Adoption of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

(continued)

(c) HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

The Group has not early adopted the following new HKFRSs, that have been issued but are not yet effective, to these financial statements.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transaction	1 March 2007

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new and amended disclosure, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of financial statements

(i) The financial statements have been prepared under the historical cost convention.

(ii) 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 and net current liabilities of RMB70,223,053 and RMB65,396,055 respectively as at 31 December 2006. The validity of the Company's and 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 RMB214.4 million to the Company. Drawdowns from this facility will be subject to the bank's normal approval procedures. As at 31 December 2006, about RMB110 million of these facilities still remain unused.

3. Principal accounting policies *(continued)*

(b) Basis of preparation of financial statements *(continued)*

The directors believe that the Group and the Company will have sufficient cash resources to satisfy their future working capital and other financing requirements. Accordingly, these financial statements have been prepared on a going concern basis and do not include any adjustments that would be required should the Group and the Company fail to continue as a going concern.

If the going concern basis were not be appropriate, adjustments would have to be made to restate the values of the Group's and the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

(c) 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 Company has the power, directly or indirectly, to govern the financial and operating polices, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

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.

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 in 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.

3. Principal accounting policies *(continued)*

(c) Group accounting *(continued)*

(i) Consolidation (continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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.

(d) 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 date 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 fair 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.

(e) 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.

3. Principal accounting policies *(continued)*

(e) Goodwill (continued)

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.

(f) 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 overhaul 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.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, to their residual values 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.

(g) 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.

3. Principal accounting policies *(continued)*

(g) Proprietary technologies *(continued)*

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.

(h) 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 recoginsed as expenses are not recognised as assets in a subsequent period.

(i) 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.

(j) 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

3. Principal accounting policies *(continued)*

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's or the Company's balance sheet when a group company or the Company 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 recogised 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.

(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.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. Principal accounting policies *(continued)*

(l) Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(m) 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.

(n) 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 or 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)*

(o) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in Renminbi using exchange rates prevailing on the balance sheet date. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(p) Government subsidy

Subsidies from the PRC government are recognised at their fair value when they are received, or when there is reasonable assurance that they will be received and all attached conditions have been complied with. When a subsidy relates to an expense item, it is recognised as income over the periods necessary to match the subsidy, on a systematic basis, with the costs which it is intended to compensate. Where a subsidy relates to an asset, the fair value of the subsidy is deducted in arriving at the carrying amount of the related asset, or, as appropriate, is initially recorded as deferred income in the balance sheet, and thereafter recognised as income over the useful life of the relevant asset.

(q) 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)*

(q) 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.

(r) 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.

(s) Related parties

Two 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 (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and exclude value added tax or other sales related taxes.

(i) 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.

(ii) Service income is recognised as services are rendered.

(iii) 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.

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

3. Principal accounting policies *(continued)*

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year, including additions resulting from acquisitions through purchases of subsidiaries.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(v) 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.

(w) Critical accounting estimates and judgements

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Company has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may effect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

(EXPRESSED IN RENMINBI DOLLARS)

3. Principal accounting policies *(continued)*

(w) Critical accounting estimates and judgements *(continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of the Company's and the Group's assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was RMB3,133,932. Further details are set out in Note 15 to the financial statements.

4. Turnover, revenue and segment information

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

	2006	2005
	RMB	RMB
Sale of goods		
– Medical and health products	**39,422,718**	48,916,107
– Fertilizer products	**231,216,503**	156,115,759
Total turnover	**270,639,221**	205,031,866
Other revenue		
– Technology transfers	**3,000,000**	–
– Government grants	**500,000**	–
– Bad debts recovery	**786,304**	1,000,000
– Over provision written back		
Trade payables	**687,091**	–
Other payables and accruals	**1,553,634**	–
Rent	**–**	3,075,120
Social welfare	**–**	2,227,533
– Interest income	**342,193**	754,993
– Others	**651,008**	726,392
	7,520,230	7,784,038
Less: Business tax	**(933,160)**	–
	6,587,070	7,784,038
Total revenue	**277,226,291**	212,815,904

(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) 2006 segment analysis:

	Medical and health products RMB	Distribution of fertilizer products RMB	Total RMB
Segment revenue	39,422,718	231,216,503	270,639,221
Segment profit	316,564	7,396,438	7,713,002
Unallocated income			48,996
Unallocated costs			(7,885,836)
Operating loss			(123,838)
Finance costs			(7,470,936)
Share of results of an associate	–	163,849	163,849
Negative goodwill arising on acquisition of additional interest in a subsidiary (Note 6)	–	3,126,187	3,126,187
Gain on disposal of subsidiaries (Note 31)	6,869,968	–	6,869,968
Profit before taxation			2,565,230
Taxation			(326,253)
Profit for the year			2,238,977
Segment assets	54,425,928	210,624,261	265,050,189
Unallocated assets			13,788,782
Total assets			278,838,971
Segment liabilities	6,128,773	64,034,610	70,163,383
Unallocated liabilities			137,933,354
Total liabilities			208,096,737
Amortisation of proprietary technologies (Note 14)	300,772	1,666	302,438
Provision for doubtful debts (Note 7)	1,423,051	2,420,328	3,843,379
Capital expenditure (Note 13)	162,717	62,984,888	63,147,605
Depreciation (Note 7)	2,166,848	3,081,678	5,248,526
Loss on disposal of property, plant and equipment (Note 7)	631,300	–	631,300

(EXPRESSED IN RENMINBI DOLLARS)

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

(b) Primary reporting format – business segments

(ii) 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 arising on acquisition of a subsidiary (Note 6)	–	2,046,605	2,046,605
Gain on disposal of a subsidiary (Note 31)	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 14)	981,600	1,666	983,266
Provision for doubtful debts (Note 7)	803,046	–	803,046
Capital expenditure (Note 13)	2,017,987	15,816,443	17,834,430
Depreciation (Note 7)	3,078,284	172,607	3,250,891
Loss on disposal of property, plant and equipment (Note 7)	181,936	–	181,936
Inventory obsolescence and write-off (Note 7)	85,543	–	85,543
Proprietary technology expenditure (Note 14)	24,000	–	24,000

(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

	2006	2005
	RMB	RMB
Interest expense on short-term bank borrowings	**7,470,936**	4,116,835

6. Negative goodwill arising on acquisition of a subsidiary

On 30 December 2005, the Company acquired 51% interest in GD Fulilong, 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. If the acquisition had occurred on 1 January 2005, Group turnover would have been approximately RMB412,906,000 and profit for the year would have been approximately RMB10,649,000.

The value of assets acquired and liabilities assumed were based on book value of GD Fulilong together with necessary adjustments made by the Directors of the Company to reflect the fair value of the assets acquired (note 30). The excess of the Company's 51% interests in the net fair value of GD Fulilong's identifiable assets, liabilities and contingent liabilities over the consideration of RMB32,719,753 resulted in a negative goodwill of RMB2,046,605.

Effective from 31 October 2006, the Group acquired the remaining 49% interest in GD Fulilong from the subsidiary's minority shareholders at a cash consideration of RMB33,402,972 (note 29(b)). The amount remained outstanding at 31 December 2006. The value of assets acquired and liabilities assumed were based on book value of GD Fulilong together with necessary adjustments made by the Directors of the Company to reflect the fair value of the assets acquired. The excess of the Group's 49% interests in the net fair value of GD Fulilong's identifiable assets, liabilities and contingent liabilities over the consideration of RMB33,402,972 resulted in a negative goodwill of RMB3,126,186.

(EXPRESSED IN RENMINBI DOLLARS)

7. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after crediting and charging the following:

	2006	2005
	RMB	RMB
Crediting		
Negative goodwill arising on acquisition of a subsidiary	**3,126,187**	2,046,605
Write back of provision for doubtful debts	**786,304**	–
Write back of inventory obsolescence and write-off	**260,829**	–
Charging		
Amortisation of proprietary technologies	**302,438**	983,266
Auditors' remuneration	**910,000**	976,000
Provision for doubtful debts		
– Other receivables	**546,992**	540,000
– Trade receivables	**3,296,387**	263,046
Cost of inventories sold	**227,013,769**	173,701,093
Depreciation:		
Leased property, plant and equipment	**232,058**	232,058
Owned property, plant and equipment	**5,016,468**	3,018,833
Inventory obsolescence and write-off	**–**	85,543
Legal and professional consulting service fees	**1,141,381**	1,363,424
Loss on disposal of property, plant and equipment, net	**631,300**	181,936
Operating lease rentals – land and buildings	**670,228**	1,649,292
Pension costs	**631,730**	759,963
Staff costs other than pension costs (including emoluments of Directors and Supervisors)	**17,543,844**	7,315,189

8. Taxation

(a) Enterprises income tax ("EIT")

Company:

In 2003, the Company changed its tax status to that of a Foreign Investment Enterprises ("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 (2005: nil) since the Company has no taxable income for the year.

Subsidiaries:

Tianjin Alpha Healthcare Products Co., Ltd. ("Alpha"), being a production FIE located in TEDA, is also eligible for all the benefits enjoyed by the Company as described above. Year 2006 is Alpha's fifth profit-making year, consequently EIT has been provided at 7.5% (2005: 7.5%) of taxable income for the year.

Tianjin Wan Tai Bio-Development Co., Ltd. ("Wantai"), being a limited liability company incorporated in the PRC, is subject to the statutory 30% EIT and 3% local income tax. Wantai has not provided for any EIT since it has no taxable income for the year (2005: nil).

(EXPRESSED IN RENMINBI DOLLARS)

8. Taxation *(continued)*

(a) Enterprises income tax ("EIT") *(continued)*

Subsidiaries: (continued)

Beijing TEDAX[2] Medical Engineering Co., Ltd. ("TEDA") and Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Xinxing"), being limited liability companies in Beijing High and New Technology Development Provisional Zone, are entitled to a concessionary 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. TEDA has been operating for more than 6 years. Therefore it is subject to EIT and local income tax at a rate of 33% (2005: 15%). Year 2006 is the fifth operating year for Xinxing. Therefore it is subject to EIT and local income tax at a rate of 15% (2005: 15%). TEDA and Xinxing have not provided for any EIT since they have no taxable income for the year (2005: nil).

SD Fulilong, being a non-production FIE incorporated in PRC, is subject to the statutory 30% EIT and 3% local income tax. SD Fulilong has not provided for any EIT since it has no taxable income for the year (2005: nil).

GD Fulilong Compound Fertilisers Company Limited ("GD Fulilong") was exempted from EIT in the PRC as the company qualified as a welfare enterprise as approved by the Guangdong Local Tax Bureau during the year ended 31 December 2005. In the opinion of the directors, GD Fulilong has complied with the qualification requirements of a welfare enterprise during the year ended 31 December 2006 and accordingly GD Fulilong should also be exempted from EIT for the year.

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

	2006	2005
	RMB	RMB
Profit/(loss) before taxation	**2,565,230**	(1,431,252)
Calculated at statutory rate of 33% (2005: 33%)	**846,526**	(472,313)
Income not subject to tax	**(5,088,410)**	(935,095)
Effect of tax exemption	**(841,594)**	(416,795)
Tax rate differential	**(594,733)**	(300,547)
Tax losses not recognised	**6,010,951**	2,369,246
Others	**(6,487)**	–
Taxation charge	**326,253**	244,496

(EXPRESSED IN RENMINBI DOLLARS)

8. Taxation *(continued)*

(b) Deferred taxation

At 31 December 2006, the Group had the following respective estimated unused tax losses, which will expire as follows:

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Year of expiry				
2006	**–**	**–**	7,621,000	7,666,000
2007	**6,364,000**	**6,364,000**	7,899,000	6,364,000
2008	**18,544,000**	**18,544,000**	22,698,000	18,544,000
2009	**13,427,000**	**13,427,000**	16,052,000	13,427,000
2010	**5,529,000**	**–**	8,809,000	–
2011	**16,860,000**	**4,177,000**	–	–
	60,724,000	**42,512,000**	63,079,000	46,001,000

No deferred tax assets has been recognised (2005: nil) as the availability of future taxable profit to utilise the temporary differences is not probable.

9. Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company is dealt with in the financial statements of the Company to the extent of a loss of RMB4,176,516 (2005: profit of RMB1,263,015).

10. Dividend

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

11. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to equity shareholders of RMB3,034,418 (2005: RMB772,746), divided by the weighted average number of shares issued during the year of 610,000,000 (2005: 517,945,205) shares.

Diluted earnings per share is not presented as there are no (2005: no) dilutive potential shares.

(EXPRESSED IN RENMINBI DOLLARS)

12. 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:

	2006	2005
	RMB	RMB
Fees	**85,000**	196,170
Salaries, housing and other allowances	**1,116,754**	1,145,715
Discretionary performance bonuses	**30,155**	81,600
Pension	**90,206**	90,639
	1,322,115	1,514,124

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

	2006	2005
Nil – RMB1,060,000 (equivalent to Nil – HK$1,000,000)	**15**	13

(EXPRESSED IN RENMINBI DOLLARS)

12. 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:

	2006	2005
	RMB	RMB
Executive Directors:		
Mr Wang Shuxin	**325,488**	637,294
Ms Zheng Dan	**60,622**	234,084
Mr Xie Kehua	**234,381**	225,995
Mr Zhang Songhong	**202,306**	N/A
	822,797	1,097,373
Non-executive directors:		
Mr Feng Enqing	**15,000**	34,000
Mr Liu Zhenyu	**15,000**	30,000
Mr Xie Guangbei	**15,000**	30,000
	45,000	94,000
Independent non-executive directors:		
Professor Xian Guoming	**15,000**	30,000
Mr Chan Hip Kai Philip	**143,842**	31,170
Mr Guan Tong	**15,000**	5,000
Mr Wu Chen	**–**	N/A
	173,842	66,170
Supervisors:		
Mr Hao Zhihui	**226,115**	177,444
Mr Yuan Wei	**44,361**	39,137
	270,476	216,581
Independent Supervisors:		
Mr Wang Xiaofa	**–**	N/A
Mr Chang Zheng	**N/A**	20,000
Mr Zhu Gang	**10,000**	20,000
	10,000	40,000
	1,322,115	1,514,124

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

(EXPRESSED IN RENMINBI DOLLARS)

12. 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 four (2005: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2005: two) individual during the year are as follows:

	2006	2005
	RMB	RMB
Salaries, housing and other allowances	**229,174**	1,097,124

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Nil – RMB1,060,000 (equivalent to Nil – HK$1,000,001)	**1**	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 (2005: nil).

None of the Directors and Supervisors waived any emoluments during the year (2005: nil).

(EXPRESSED IN RENMINBI DOLLARS)

13. Property, plant and equipment

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures & equipment	Construction in progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost						
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
Disposal	–	(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
Additions	–	243,330	788,909	6,489,760	55,625,606	63,147,605
Disposal	(484,044)	(21,060)	(715,264)	(180,601)	–	(1,400,969)
Disposal of subsidiaries	(459,697)	(66,743)	(491,159)	(791,288)	–	(1,808,887)
At 31 December 2006	**8,839,905**	**29,649,859**	**6,575,334**	**9,265,588**	**73,107,637**	**127,438,323**
Accumulated depreciation						
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
Charge for the year	274,857	3,608,887	879,852	484,930	–	5,248,526
Write back on disposal	–	(50,297)	(435,956)	(88,458)	–	(574,711)
Disposal of subsidiaries	(326,022)	(19,735)	(174,572)	(583,365)	–	(1,103,694)
At 31 December 2006	**4,487,524**	**19,605,381**	**3,545,334**	**1,945,302**	**–**	**29,583,541**
Net book value						
At 31 December 2006	**4,352,381**	**10,044,478**	**3,030,000**	**7,320,286**	**73,107,637**	**97,854,782**
At 31 December 2005	5,244,957	13,427,806	3,716,838	1,615,522	17,482,031	41,487,154

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 RMB1.8 million (2005: RMB2 million).

(2) At 31 December 2006, the net book value of property, plant and equipment pledged as security for certain of the Group's banking facilities amounted to RMB1.8 million (2005: RMB2 million).

(3) At 31 December 2006, the net book value of property, plant and equipment held by the Group under a finance lease amounted to RMB1.4 million (2005: RMB1.6 million).

(EXPRESSED IN RENMINBI DOLLARS)

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

Company

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures & equipment	Total
	RMB	RMB	RMB	RMB	RMB
Cost					
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
Disposal	–	(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
Additions	–	28,600	–	1,150	29,750
Disposal	–	(20,470)	(313,802)	–	(334,272)
As at 31 December 2006	**2,016,909**	**6,510,626**	**1,435,155**	**1,445,304**	**11,407,994**
Accumulated depreciation					
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
Charge for the year	19,284	770,079	332,571	151,354	1,273,288
Written back on disposal	–	(14,879)	(257,818)	–	(272,697)
As at 31 December 2006	**741,310**	**2,472,105**	**742,164**	**986,962**	**4,942,541**
Net book value					
At 31 December 2006	**1,275,599**	**4,038,521**	**692,991**	**458,342**	**6,465,453**
At 31 December 2005	1,294,883	4,785,591	1,081,546	608,546	7,770,566

Note:

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

(2) At 31 December 2006, the net book value of property, plant and equipment pledged as security for certain of the Group's banking facilities amounted to RMB1.8 million (2005: RMB2 million).

(3) At 31 December 2006, the net book value of property, plant and equipment held by the Company under a finance lease amounted to RMB1.2 million (2005: RMB1.6 million).

(EXPRESSED IN RENMINBI DOLLARS)

14. Proprietary technologies

	Group	
	2006	2005
	RMB	RMB
Cost		
At 1 January	**4,416,660**	5,916,660
Addition	**–**	24,000
Transfer to property, plant and equipment	**(16,660)**	–
Disposal of subsidiaries	**(4,400,000)**	(1,524,000)
At 31 December	**–**	4,416,660
Accumulated amortisation		
At 1 January	**3,008,370**	2,176,704
Charge for the year	**302,438**	983,266
Transfer to property, plant and equipment	**(1,805)**	–
Disposal of a subsidiary	**(3,309,003)**	(151,600)
At 31 December	**–**	3,008,370
Carrying value		
At 31 December	**–**	1,408,290

15. Goodwill on consolidation

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

	Group	
	2006	2005
	RMB	RMB
Cost		
At 1 January	**3,367,001**	4,938,247
Disposal of subsidiaries (Note 31)	**(233,069)**	–
Opening balance adjustment to eliminate accumulated amortisation	**–**	(1,571,246)
At 31 December	**3,133,932**	3,367,001
Accumulated amortisation		
At 1 January	**–**	1,571,246
Opening balance adjustment to eliminate against cost	**–**	(1,571,246)
At 31 December	**–**	–
Carrying value at 31 December	**3,133,932**	3,367,001

Prior to 2005, goodwill was amortised on a straight line basis over 20 years. With effect from 1 January 2005 the Group no longer amortised 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.

16. Interests in subsidiaries

	Company	
	2006	2005
	RMB	RMB
Unlisted investments, at cost	**77,029,432**	54,958,195
Amounts due from subsidiaries	**95,980,700**	45,859,492
	173,010,132	100,817,687

The amounts due from 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 2006 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 2006	2005
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%**	100% (Note (i))
Beijing TEDAX[2] Medical Engineering Co., Ltd. ("TEDA")	17 December 2001, limited liability company	Investment holding and holder of proprietary technologies	1,400	**– (Note (ii))**	100%
Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Xinxing")	23 June 1995, limited liability company	Manufacture and distribution of biomedical equipment	1,000	**– (Note (ii))**	100%
Shandong Fulilong Fertilizer Co Ltd. (formerly Shandong TEDA Bio-Engineering Co., Ltd.) ("SD Fulilong")	18 September 2005, 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 ("GD Fulilong")	20 August 1996, limited liability company	Manufacture and sale of compound fertilizers	16,327	**100% (Note iii))**	51% (Note (iii))

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

Note:

(i) In 2005, 10% of its equity interest was held by TEDA. Immediately following the disposal of TEDA and Xinxing (Note 31), the Company acquired back the 10% interest in Wantai.

(ii) Ceased to be subsidiaries of the Group in 2006.

(iii) GD Fulilong was a 51% owned subsidiary of the Company from 30 December 2005 (Note 30) to 31 October 2006. Since then, it becomes a wholly owned subsidiary of the Group, of which 5% of its equity interest was held indirectly by the Company.

17. Interests in an associate

	Group 2006 RMB	Group 2005 RMB
Share of net assets	**20,299,553**	2,135,704
Amount due from an associate	**–**	22,675,101
	20,299,553	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 2006	Equity interest attributable to the Group 2005
Shaanxi Xing Fu Fertilizer Company Limited ("Shaanxi Xing Fu")	25 May 2005, limited liability company	Manufacture and sale of highly concentrated nitro-compound fertilizers	50,000	**20.4%**	20.4%

On 25 May 2005, GD 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 ("Xinghua").

On 24 October 2006, the registered capital of Shaanxi Xing Fu were increased by RMB45,000,000, which were contributed proportionately by GD Fulilong and Xinghua. The increased capital were fully paid up on the same date.

In 2005, all the products of Shaanxi Xing Fu were sold to GD Fulilong directly. In 2006, the majority of its products were sold to GD Fulilong via an independent agent (note 34).

18. Lease prepayments

	Group 2006 RMB	Group 2005 RMB
Cost		
At 1 January	**668,428**	–
Additions	**3,000,000**	–
Acquisition of a subsidiary	**–**	668,428
At 31 December	**3,668,428**	668,428
Accumulated amortisation		
At 1 January	**–**	–
Charge for the year	**76,304**	–
At 31 December	**76,304**	–

(EXPRESSED IN RENMINBI DOLLARS)

18. Lease prepayments *(continued)*

	2006	2005
	RMB	RMB
Net book value at 31 December	**3,592,124**	668,428
Portion classified as current assets	**(256,209)**	(16,336)
Non-current assets	**3,335,915**	652,092

19. Inventories

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Raw materials	**18,030,604**	**354,106**	13,308,804	255,651
Work-in-progress	**1,387,612**	**19,696**	4,089,115	1,045,687
Finished goods	**15,121,433**	**2,822,867**	12,251,742	1,320,222
Packaging materials	**5,739,313**	**25,148**	4,655,740	25,148
	40,278,962	**3,221,817**	34,305,401	2,646,708
Less: Provision for inventory obsolescence	**(2,434,252)**	**(81,093)**	(3,157,864)	(111,032)
	37,844,710	**3,140,724**	31,147,537	2,535,676

20. Trade receivables

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Trade receivables	**65,372,549**	**–**	76,575,241	4,848,297
Less: Receivable after one year, classified as non-current assets (Note (c))	**(3,348,169)**	**–**	(4,794,540)	–
Trade receivables, current assets	**62,024,380**	**–**	71,780,701	4,848,297
Less: Provision for doubtful debts	**(5,464,946)**	**–**	(8,590,814)	(4,848,297)
	56,559,434	**–**	63,189,887	–

(EXPRESSED IN RENMINBI DOLLARS)

20. Trade receivables *(continued)*

Note:

(a) Except for Beijing TEDAX[2] and Beijing Xinxing where credit terms were 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. Beijing TEDAX[2] and Beijing Xinxing usually granted 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:

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Within 3 months	**27,879,752**	**–**	32,542,825	–
Between 3 to 6 months	**18,233,610**	**–**	9,306,977	–
Between 6 to 12 months	**11,186,317**	**–**	17,192,257	2,376,649
Over 1 year	**4,724,701**	**–**	12,738,642	2,471,648
	62,024,380	**–**	71,780,701	4,848,297

(c) Trade receivables, non-current

	Group	
	2006	2005
	RMB	RMB
Instalment sale receivable	**5,079,554**	6,237,361
Less: Current portion	**(1,731,385)**	(1,442,821)
Non-current portion	**3,348,169**	4,794,540

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	
	2006	2005
	RMB	RMB
Within one year	**1,800,000**	1,500,000
In the second year to fifth year, inclusive	**3,800,000**	5,600,000
	5,600,000	7,100,000
Future finance income on instalment sale receivable	**(520,446)**	(862,639)
Present value of instalment sale receivable	**5,079,554**	6,237,361

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

	Group	
	2006	2005
	RMB	RMB
Within one year	**1,731,385**	1,442,821
In the second year to fifth year, inclusive	**3,348,169**	4,794,540
	5,079,554	6,237,361

21. 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 HK$ (Hong Kong Dollars) 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 2006, RMB716,464 (2005: RMBnil) was recovered leaving a balance of about RMB1.4 million (2005: RMB2.1 million) at 31 December 2006. Subsequent to year end the Company received RMB600,000. The Directors are of the opinion that the balance will be collected without significant loss to the Group and that RMB0.8 million will be collected in 2007. On this basis, RMB1.4 million (2005: RMB1.2 million) has been grouped under current assets and the remaining RMBnil (2005: RMB0.9 million) as non-current receivables.

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

(b) 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 and was fully settled during 2006.

(c) On 12 December 2006, the Company entered into an equity transfer agreement, pursuant to which the Company agreed to dispose of its entire 100% of the equity interests in TEDA and Xinxing to 深圳市翔永投資顧問有限公司, an independent third party, at a consideration of RMB3 million. The amount remained outstanding at 31 December 2006. Subsequent to year end, RMB300,000 was settled.

(d) Included in other receivables at 31 December 2006 is an amount due from an ex-subsidiary totalling RMB11,137,066, of which RMB1,680,250, RMB3,337,700 and RMB6,119,116 are repayable by 31 December 2007, 31 December 2008 and 31 December 2009 respectively. The amount is interest bearing at market rates and its repayment is guaranteed by Shenzhen Xiangyong Investment Consulting Co., Ltd. (深圳市翔永投資顧問有限公司), the existing shareholder of the ex-subsidiary.

22. Balances with related parties

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Due from				
Ultimate holding company	**2,651,716**	**2,651,216**	2,846,002	2,995,502
Minority shareholders of subsidiaries	**–**	**–**		
Directors	**–**	**–**	2,006	–
	2,651,716	**2,651,216**	2,848,008	2,995,502
Due to				
Sole investor of ultimate holding company	**–**	**–**	852,948	852,948
Ultimate holding company	**–**	**–**	494,286	344,286
A minority shareholder of a subsidiary	**–**	**–**	4,295,715	–
Ex-director	**–**	**–**	150,000	–
	–	**–**	5,792,949	1,197,234

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

(EXPRESSED IN RENMINBI DOLLARS)

23. Restricted bank deposits

The restricted bank deposits are pledged to secure the Group's credit facilities granted by a bank.

24. Trade and bills 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:

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
	(Note)			
Within 3 months	**14,010,467**	**–**	18,043,023	4,555
Between 3 to 6 months	**23,995,802**	**–**	1,767,156	51,112
6 months to one year	**1,209,798**	**100,000**	92,791	1,535
Over one year	**53,483**	**50,353**	1,004,633	547,820
	39,269,550	**150,353**	20,907,603	605,022

Note: Included bills payable to an associate of RMB23,500,000 (2005: nil).

25. Short-term bank borrowings

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Short term bank borrowings:				
– secured against property, plant and equipment (Note (i))	**3,500,000**	**–**	3,500,000	–
– unsecured (Note (ii))	**100,900,000**	**100,000,000**	48,000,000	47,000,000
	104,400,000	**100,000,000**	51,500,000	47,000,000

Note:

(i) Secured against property, plant and equipment with net book value of about RMB1.8 million (2005: RMB2.0 million) (Note 13).

(ii) Unsecured loans are guaranteed as follows:

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Guarantees were provided by:				
– the Company (Note 36)	**900,000**	**–**	1,000,000	–
– Tianjin TEDA Guarantee Co. Ltd.	**100,000,000**	**100,000,000**	47,000,000	47,000,000
	100,900,000	**100,000,000**	48,000,000	47,000,000

(iii) All short-term bank borrowings bore annual interest ranging from 5.6% to 7.6% (2005: from 5.6% to 7.3%).

(EXPRESSED IN RENMINBI DOLLARS)

26. Finance lease payable

Finance lease liability is repayable as follows:–

	Group and Company	
	2006	2005
	RMB	RMB
Within one year	**346,816**	346,816
In the second year	**187,686**	187,686
In the third year to 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 were originally payable by instalments from July 2003 to July 2011.

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

	Group and Company	
	2006	2005
	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

27. Share capital

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

	2006		2005	
	Number (million)	**RMB (million)**	Number (million)	RMB (million)
Ordinary shares of RMB 0.1 each:				
– Domestic shares	**279**	**28**	279	28
– "H" shares	**331**	**33**	331	33
	610	**61**	610	61

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) Movements in reserves are set out in the consolidated statement of changes in shareholders' equity.

In accordance with the PRC Companies Law, the Company and its subsidiaries were required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of the registered capital of the respective companies) and a percentage of not less than 5% as determined by management of the profit after tax to the public welfare fund. With the amendment of the PRC Companies Law which was effective from 1 January 2006, enterprises in the PRC are no longer required to transfer any profit to the public welfare fund. Any balance of public welfare fund brought forward from 31 December 2005 should be transferred to the statutory surplus reserve. The statutory surplus reserve is non-distributable. According to the relevant PRC regulations, statutory surplus reserve can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

(c) No share options had been granted by the Company under its share option scheme (the "Scheme") since its adoption (2005: nil). At 31 December 2006, 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 (2005: nil).

(EXPRESSED IN RENMINBI DOLLARS)

28. Reserves

	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Total RMB
The Company				
At 1 January 2005	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
Net loss for the year	–	–	(4,176,516)	(4,176,516)
At 31 December 2006	**75,089,571**	**(2,312,483)**	**(63,921,625)**	**8,855,463**

29. Notes to consolidated cash flow statement

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

	2006 RMB	2005 RMB
Profit/(loss) before taxation	**2,565,230**	(1,431,252)
Depreciation	**5,248,526**	3,250,891
Loss on disposal of property, plant and equipment	**631,300**	181,936
Share of results of an associate	**(163,849)**	–
Negative goodwill released to income	**(3,126,187)**	(2,046,605)
Gain on disposal of subsidiaries	**(6,869,968)**	(663,161)
Interest expense	**7,470,936**	4,116,835
Interest income	**(342,193)**	(754,993)
Amortisation of proprietary technologies	**302,438**	983,266
Amortisation of lease prepayments	**76,304**	–
Operating profit before working capital changes	**5,792,537**	3,636,917
Increase in inventories	**(9,978,200)**	(3,170,037)
Decrease/(increase) in trade receivables	**4,733,594**	(527,311)
(Increase)/decrease in prepayments and other receivables	**(7,730,112)**	5,328,666
Increase in amount due from an associate	**(397,677)**	–
Decrease/(increase) in amounts due from related parties	**196,292**	(1,088,702)
Decrease in non-current receivables	**2,313,859**	–
Increase/(decrease) in trade and bills payables	**18,651,957**	(8,359,248)
Increase in other payables and accruals	**962,738**	17,463,506
Decrease in amounts due to related parties	**(5,792,949)**	(140,000)
Cash generated from operations	**8,752,039**	13,143,791

(EXPRESSED IN RENMINBI DOLLARS)

29. Notes to consolidated cash flow statement *(continued)*

(b) Acquisition of additional equity interest in GD Fulilong (note 6)

	2006
	RMB
Share of net assets acquired/(liabilities assumed)	**36,529,158**
Negative goodwill (Note 6)	**(3,126,186)**
Satisfied by consideration payable	**33,402,972**
Net cash outflow	**–**

(c) Major non-cash transactions:

Other than the acquisition of additional equity interest in a subsidiary described in Note 29(b), proceeds from the disposal of subsidiaries of RMB3,000,000 (2005: RMB3,500,000) was not yet settled at the balance sheet date and the amounts of receivables were included in prepayments and other receivables.

30. Acquisition of a subsidiary

Details of fair value of identifiable assets/(liabilities) of GD Fulilong an 30 December 2005 (note 6) are as follows:

	2005
	RMB
Property, plant and equipment	8,876,609
Investment in associate	24,810,805
Lease prepayment	652,093
Inventories	15,026,370
Trade receivables, prepayments and other receivables	43,531,351
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 (note 6)	(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 GD Fulilong	(219,753)
	(28,541,800)

(EXPRESSED IN RENMINBI DOLLARS)

31. Disposal of subsidiaries

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. ("Yisheng") to Mr. Lei Y Hua, an independent third party, at a cash consideration of RMB3.5 million.

On 12 December 2006, the Company entered into an equity transfer agreement pursuant to which the Company agreed to dispose of its entire 100% equity interests in TEDA and Xinxing to 深圳市翔永投資顧問有限公司, an independent third party, at a cash consideration of RMB3 million.

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

	2006	2005
	RMB	RMB
Investments (note 16(i))	**500,000**	–
Property, plant and equipment	**705,193**	661,012
Proprietary technologies	**1,090,997**	1,372,400
Inventories	**3,281,027**	5,091,180
Trade receivables, prepayments and other receivables	**3,832,926**	2,998,885
Cash and bank balances	**359,640**	958,347
Trade payables, other payables and accruals	**(13,872,820)**	(7,029,198)
	(4,103,037)	4,052,626
Goodwill	**233,069**	–
Minority interest	**–**	(1,215,787)
	(3,869,968)	2,836,839
Gain on disposal of subsidiaries	**6,869,968**	663,161
Satisfied by cash – consideration receivable	**3,000,000**	3,500,000
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:		
Cash and bank balances disposed of with the subsidiaries	**(359,640)**	(958,347)
Cash consideration receivable	**3,000,000**	3,500,000

Yisheng contributed approximately RMB7,000,000 to the Group's turnover and approximately RMB479,000 to the Group's loss for the year ended 31 December 2005.

TEDA and Xinxing contributed approximately RMB1,535,000 to the Group's turnover and approximately loss of RMB1,729,000 to the Group's profit and loss for the year ended 31 December 2006.

(EXPRESSED IN RENMINBI DOLLARS)

32. Commitments

(a) Capital commitments

The Group and the Company had the following significant capital commitments:

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Authorised and contracted for				
– Acquisition of plant and machinery	**18,923,851**	**–**	18,671,292	–

(b) Operating lease commitments

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:

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**534,814**	**63,441**	585,971	–
Later than one year and not later than five years	**1,860,706**	**–**	1,921,403	–
Over five years	**8,585,939**	**–**	3,080,303	–
Total future lease payments	**10,981,459**	**63,441**	5,587,677	–

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

	2006		2005	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**63,441**	**63,441**	1,142,000	542,000
Later than one year and not later than five years	**–**	**–**	4,471,000	2,121,000
Total future lease payments	**63,441**	**63,441**	5,613,000	2,663,000

33. 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

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value and cash flow interest risks is minimal as the Group does not have any long-term financial assets and liabilities.

(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 amounts.

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.

The fair values of investment in an associate company is estimated based on the audited financial statements of the invested company, approximate to its carrying value.

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)

34. Material related party transactions

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.

Members of key management during the year comprised only the four executive directors whose remuneration is set out in note 12 to the financial statements.

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.

	2006	2005
	RMB	RMB
Waiver of operating lease rental charged by TTII and its sole investor	**–**	3,075,120
Purchases of inventories from an associate via a third party agent	**37,625,484**	–

35. 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.

36. Contingent liabilities

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

37. Comparative figures

Certain prior year comparative figures have been reclassified to conform with the current year's presentation.

38. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2007.

NOTICE IS HEREBY GIVEN THAT an 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, 21 May 2007 for the following purposes:

I. As ordinary resolutions:

1. To consider and, if thought fit, approve the Directors' Report of the Company for 2006;

2. To consider and, if thought fit, approve the Report of the Supervisory Committee of the Company for 2006;

3. To consider and, if thought fit, approve the audited consolidated accounts of the Company for the year ended 31 December 2006;

4. To consider and, if thought fit, approve that no final dividend is declared for 2006;

5. To consider and, if thought fit, approve the proposal of appointing Horwath Hong Kong CPA Limited as auditors of the Company for 2007 and authorize the Directors of the Company to fix their remuneration; and

6. To transact any other business.

II. As a special resolution:

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."

By order of the Board
Wang Shuxin
Chairman

Tianjin, China
30 March 2007

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 20 April 2007 to 21 May 2007 (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 20 April 2007 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 30 April 2007.

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.