



天津泰達生物醫學工程股份有限公司  
**Tianjin TEDA Biomedical Engineering Company Limited**  
*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 8189)**

**INTERIM REPORT 2007**

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

## **HIGHLIGHTS**

- For the six months ended 30 June 2007, turnover was increased by 7.44% from that of recorded in the corresponding period of last year and amounted to approximately RMB159,740,678.
- Gross profit decreased by 5.1% from the corresponding period of last year to approximately RMB19,715,754.
- Gross profit margin decreased to approximately 12.34% which is lower than that of 13.97% recorded in the corresponding period of last year. This was due to the increase in the sale of the fertilizer products which is of lower gross profit margin of the fertilizer products.
- Loss attributable to equity holders amounted to approximately RMB6,015,119, representing an increase by approximately RMB3,953,345 from that of recorded in the corresponding period of 2006. Such increase was mainly attributable to the rise in the raw materials for fertilizer products.

## HALF-YEARLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited half-yearly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2007, together with the comparative figures of the corresponding period in 2006 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	For the six months ended 30 June		For the three months ended 30 June	
	2007 (Unaudited) RMB	2006 (Unaudited) RMB	2007 (Unaudited) RMB	2006 (Unaudited) RMB
Turnover	159,740,678	148,680,245	72,239,970	55,213,011
Less: sales tax	–	(10,878)	–	(9,627)
Cost of sales	<u>(140,024,924)</u>	<u>(127,893,541)</u>	<u>(63,365,095)</u>	<u>(48,317,162)</u>
Gross profit	19,715,754	20,775,826	8,874,875	6,886,222
Other (expenditure)/revenue	(16,218)	988,316	56,275	686,331
Distribution and selling expense	(12,899,658)	(11,456,959)	(5,804,204)	(5,895,730)
R&D and administrative expenses	<u>(8,698,050)</u>	<u>(7,626,539)</u>	<u>(4,451,431)</u>	<u>(3,072,027)</u>
Operating (loss)/profit	(1,898,172)	2,680,644	(1,324,485)	(1,395,204)
Finance costs	(4,357,869)	(2,814,481)	(2,398,861)	(1,529,357)
Amortization of goodwill on consolidation	<u>–</u>	<u>(151,710)</u>	<u>–</u>	<u>(151,710)</u>
Loss before taxation	(6,256,041)	(285,547)	(3,723,346)	(3,076,271)
Taxation	<u>(146,585)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss after taxation	<u>(6,402,626)</u>	<u>(285,547)</u>	<u>(3,723,346)</u>	<u>(3,076,271)</u>
Attributable to:				
Equity holders of the Company	(6,015,119)	(2,061,774)	(3,368,942)	(2,163,135)
Minority interests	<u>(387,507)</u>	<u>1,776,227</u>	<u>(354,404)</u>	<u>(913,136)</u>
	<u>(6,402,626)</u>	<u>(285,547)</u>	<u>(3,723,346)</u>	<u>(3,076,271)</u>
Loss per share	<u>(0.99) cents</u>	<u>(0.3) cents</u>	<u>(0.55) cents</u>	<u>(0.3) cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	30 June 2007 (Unaudited) RMB	31 December 2006 (Audited) RMB
<b>Non-current assets</b>		
Property, plant and equipment, net	109,578,395	97,854,782
Goodwill on consolidation	3,133,932	3,133,932
Investment in associate	20,299,553	20,299,553
Trade receivables	3,348,169	3,348,169
Other receivables	9,456,816	9,456,816
Lease prepayments	3,215,979	3,335,915
	<u>149,032,844</u>	<u>137,429,167</u>
<b>Current assets</b>		
Inventories	39,455,141	37,844,710
Trade receivables	60,398,426	56,559,434
Prepayment and other receivables	48,478,564	24,128,680
Amount due from an associate	–	397,677
Amounts due from related parties	828,245	2,651,716
Restricted bank deposits	9,000,000	8,550,000
Cash and bank balances	11,724,139	11,277,587
	<u>169,884,515</u>	<u>141,409,804</u>
<b>Current liabilities</b>		
Short-term bank borrowings	118,300,000	104,400,000
Trade and bills payables	58,248,044	39,269,550
Other payables and accruals	42,989,041	29,386,521
Current portion of finance lease payable	346,816	346,816
Amounts due to ex-shareholders of a subsidiary	33,402,972	33,402,972
	<u>253,286,873</u>	<u>206,805,859</u>
<b>Net current assets</b>	<u>(83,402,358)</u>	<u>(65,396,055)</u>
<b>Total assets less current liabilities</b>	<u>65,630,486</u>	<u>72,033,112</u>
<b>Non-current liabilities</b>		
Finance lease payable	(1,290,878)	(1,290,878)
<b>Net assets</b>	<u>64,339,608</u>	<u>70,742,234</u>
Equity		
<b>Capital and reserves</b>		
Share capital	61,000,000	61,000,000
Reserve	3,339,608	7,407,922
Equity attributable to equity shareholders	<u>62,392,803</u>	<u>68,407,922</u>
Minority interests	1,946,805	2,334,312
<b>Total equity</b>	<u>64,339,608</u>	<u>70,742,234</u>

## CONDENSED CONSOLIDATED CASH STATEMENT

	For the six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
	RMB	RMB
<b>Cash flows from operating activities</b>		
Cash used in operation	6,408,584	(12,221,074)
Interests received	68,549	92,552
Income tax paid	(478,862)	–
Interests paid	(3,463,107)	(2,413,458)
<b>Net cash used in operating activities</b>	<u>2,535,164</u>	<u>(14,541,980)</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(17,458,612)	(27,180,204)
Disposal of a subsidiary	3,000,000	–
Sales of property, plant and equipment	–	11,360
<b>Net cash used in investing activities</b>	<u>(14,458,612)</u>	<u>(27,168,844)</u>
<b>CASH FLOWS FINANCING ACTIVITIES</b>		
Proceeds from short-term bank borrowing	117,500,000	104,400,000
Repayment of short-term bank borrowings	(103,500,000)	(51,500,000)
Payment of guarantee fee on bank borrowings	(1,180,000)	(450,000)
<b>Net cash used in financing activities</b>	<u>12,820,000</u>	<u>52,450,000</u>
<b>NET INCREASE IN CASH AND BANK BALANCES</b>	896,552	10,739,176
<b>CASH AND BANK BALANCES AT THE BEGINNING OF THE PERIOD</b>	<u>19,827,587</u>	<u>16,767,412</u>
<b>CASH AND BANK BALANCES AT THE END OF THE PERIOD</b>	<u>20,724,139</u>	<u>27,506,587</u>

## MOVEMENT OF RESERVES (UNAUDITED)

For the six months ended 2007

	Share Capital		Share Premium		Accumulated Losses		Capital Reserve		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Balance as at 1 January	61,000,000	61,000,000	75,089,571	75,089,571	(70,233,053)	(73,257,471)	2,541,404	2,541,404	68,407,922	65,373,504
Net (loss)/profit attributable to equity holders of the Company for the three months ended 31 March	-	-	-	-	(2,646,177)	101,361	-	-	(2,646,177)	101,361
Balance as at 31 March	61,000,000	61,000,000	75,089,571	75,089,571	(72,869,230)	(73,156,110)	2,541,404	2,541,404	65,761,745	65,474,865
Net loss attributable to equity holders of the Company for the three months ended 30 June	-	-	-	(288,250)	(3,368,942)	(2,163,135)	-	-	(3,368,942)	(2,451,385)
Balance as at 30 June	61,000,000	61,000,000	75,089,571	74,801,321	(76,238,172)	(75,319,245)	2,541,404	2,541,404	62,392,803	63,023,480

Notes:

### 1. Group information and principal activities

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

The Company and its subsidiaries (collectively the "Group") are principally engaged in the research and development and commercialization of biological compound fertilizer products, medical and health products.

### 2. Basis of presentation and accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with Hong Kong Financial Reporting Standards, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

In the current period, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKAS") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has had no material impact on the Group's unaudited results of operations and financial position.

The financial statements have been prepared on a going concern basis, assuming that the Group will continue to operate as a going concern, notwithstanding the fact that the Group suffered accumulated losses of RMB76,238,172 as at 30 June 2007. The validity of the Group's ability to continue as a going concern depends on the success of the Group's future operations and the ability of the Group to renew or replace the banking facilities as they fall due. The Group's principal banker has confirmed that it will continue to extend banking facility of up to RMB200 million to the Company. Renewal of this facility will be subject to the bank's normal approval procedures. Consequently, the Directors have prepared the unaudited quarterly results for the six months ended 30 June 2007 on the going concern basis.

The principal accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

### 3. Turnover

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

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

	For the six months ended 30 June		For the three months ended 30 June	
	2007 RMB	2006 RMB	2007 RMB	2006 RMB
Turnover				
Fertilizer products	137,892,202	129,441,050	64,648,627	48,695,954
Medical & health products	21,848,476	19,239,195	7,591,343	6,517,057
	<u>159,740,678</u>	<u>148,680,245</u>	<u>72,239,970</u>	<u>55,213,011</u>

### 4. Finance costs

	For the six months ended 30 June		For the three months ended 30 June	
	2007 RMB	2006 RMB	2007 RMB	2006 RMB
Interest expense on bank loans and bank changes	4,357,869	2,814,481	2,398,862	1,529,357
	<u>4,357,869</u>	<u>2,814,481</u>	<u>2,398,862</u>	<u>1,529,357</u>

### 5. Loss before tax

	For the six months ended 30 June	
	2007 RMB	2006 RMB
Depreciation of property, plant and equipment	2,729,179	1,807,745
Amortization of intangible asset	137,560	137,560
Amortization of goodwill	–	151,710
	<u>2,866,739</u>	<u>2,097,015</u>



## 6. Taxation

### (a) Enterprise income tax (“EIT”)

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 (2006: nil) since the Company has no taxable income for the period.

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. In 2007, Alpha is subject to the statutory 15% EIT (2006:7.5%).

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 period (2006: 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 period (2006: nil).

Guangdong Fulilong Compound Fertilizers Company Limited (“GD Fulilong”) was exempted from EIT in the PRC as it was qualified as a welfare enterprise approved by the Guangdong Local Tax Bureau during the year ended 31 December 2005. In the opinion of the directors, GD Fulilong had 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. Starting from 2007, GD Fulilong is subject to the EIT in the PRC and prepays quarterly at 15% income tax rate applicable to high and new technological enterprises which will be settled by the year end. GD Fulilong has not provided for any EIT since it has no taxable income for the period under review.

### (b) Income tax expense

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<i>RMB</i>	<i>RMB</i>
Current Tax		
Hong Kong	Nil	Nil
Other Jurisdictions	Nil	Nil

The income tax charge in Hong Kong is Nil for the period ended 30 June 2007 (June 2006: Nil) as the Company did not carry on any business in Hong Kong during the period. The income tax charge in the PRC is 146,585 for the period ended 30 June 2007 (June 2006: Nil).

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

	<b>For the six months ended 30 June</b>	
	<b>2007</b> <i>RMB</i>	<b>2006</b> <i>RMB</i>
Loss before tax	(6,403)	(286)
Tax calculated at the EIT rate of 33%	(2,113)	(94)
Tax rate differential	(36)	(1,657)
Effect of tax holiday exemption	–	–
Effect of the tax losses on consolidation	2,296	1,751
Tax effect of expenses that are not deductible in determining taxable profit	–	–
	<u>–</u>	<u>–</u>
Tax expense for the period	<u>147</u>	<u>–</u>

#### 7. Loss per share

For the six months ended 30 June 2007, the calculation of loss per share is based on the Group's loss attributable to equity holders of RMB6,015,119 (June 2006: loss of RMB2,061,774), divided by the total number of shares issued by the Company of 610,000,000 shares (June 2006: 610,000,000 shares). Diluted profit per share is not presented as there are no dilutive potential shares during the period.

#### 8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB17,458,612 (2006: RMB28,770,841) on the acquisition of property, plant and equipment.

#### 9. Trade receivables

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

	<b>30 June 2007 (Unaudited) RMB</b>	<b>31 December 2006 (Audited) RMB</b>
Trade receivables	66,618,488	62,024,380
Provision for doubtful accounts	(6,220,062)	(5,464,946)
	<u>60,398,426</u>	<u>56,559,434</u>

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

	<b>30 June 2007 (Unaudited) RMB</b>	<b>31 December 2006 (Audited) RMB</b>
Within 3 months	36,308,654	27,879,752
Over 3 months but within 6 months	14,248,828	18,233,610
Over 6 months	16,061,006	15,911,018
	<u>66,618,488</u>	<u>62,024,380</u>

## 10. Trade payables

The aging analysis of trade payables is as follows:

	<b>30 June 2007 (Unaudited) RMB</b>	<b>31 December 2006 (Audited) RMB</b>
Within 3 months	26,882,162	14,010,467
Over 3 months but within 6 months	30,350,102	23,995,802
Over 6 months	1,015,780	1,263,281
	<u>58,248,044</u>	<u>39,269,550</u>

## 11. Share capital

	<b>30 June 2007</b>		<b>31 December 2006</b>	
	<b>Number of shares</b>	<b>Nominal value RMB'000</b>	<b>Number of shares</b>	<b>Nominal value RMB'000</b>
Registered	<u>610,000,000</u>	<u>61,000</u>	<u>610,000,000</u>	<u>61,000</u>
<i>Issued and fully paid</i>				
Domestic shares of RMB0.1 each	279,000,000	27,900	279,000,000	27,900
H shares of RMB0.1 each	<u>331,000,000</u>	<u>33,100</u>	<u>331,000,000</u>	<u>33,100</u>
	<u>610,000,000</u>	<u>61,000</u>	<u>610,000,000</u>	<u>61,000</u>

## 12. Capital commitments

As of 30 June 2007, the Group had no significant capital commitments which were not provided for in the condensed consolidated financial statements of the Group.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (June 2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Segmental information

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

The results of the Group segregated by segments for the six months ended 30 June 2007 and for the three months ended 30 June 2007 as compared with the same recorded in the corresponding periods in 2006 are analysed as follows:

	<b>For the six months ended 30 June</b>		<b>For the three months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Segment revenues				
Fertilizer products	137,892,202	129,441,050	64,648,627	48,695,954
Medical & health products	21,848,476	19,239,195	7,591,343	6,517,057
Segment results				
Fertilizer products	(199,584)	1,403,437	(356,379)	(3,962,844)
Medical & health products	(5,815,535)	(3,465,211)	(3,012,563)	1,799,709

### **Foreign currency risk**

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

### **Liquidity, Financial Resources and Capital Structure**

During the period under review, the Group's primary source of fund was cash proceeds derived from banking facilities granted by PRC banks. As at 30 June 2007, the Group had bank and cash balances amounted to approximately RMB20,724,139 (31 December 2006: RMB19,827,587), short term bank borrowings of RMB118,300,000 (31 December 2006: RMB104,400,000). The bank borrowings are denominated in Renminbi and provided by various PRC banks in fixed interest rates within the range from 5.9% to 8.6% per annum (31 December 2006: 5.6% to 7.6%). The major portions of the bank borrowings in the sum of RMB28,000,000 and RMB25,000,000 will be matured on 18 January 2008 and 28 March 2008 respectively. The sum of RMB23,000,000 and RMB22,000,000 will be matured on 28 April 2008 and 19 June 2008, remaining portion of total bank borrowings will be matured on variable dates from 9 January 2008 to 22 May 2008.

As at 30 June 2007, the Group had total assets of approximately RMB318,917,359 (31 December 2006: RMB278,838,971) which were financed by current liabilities of approximately RMB253,286,873 (31 December 2006: RMB206,805,859), shareholders' equity of RMB62,392,803 (31 December 2006: RMB68,407,922) and minority interests of approximately RMB1,946,805 (31 December 2006: RMB2,334,312).

As at 30 June 2007, the Group's gearing ratio, defined as the ratio between the total bank borrowings and the total assets, was 0.37 (31 December 2006: 0.37). The liquidity ratio of the Group, represented by a ratio of the current assets over the current liabilities, was 0.67 (31 December 2006: 0.68).

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

As at 30 June 2007, the building and the land use rights of the Company's subsidiaries of RMB1,680,000 was pledged as security for granting of loans to the Company's subsidiaries by a PRC licensed bank.

The Company guaranteed the banking facilities granted to certain of its subsidiaries amounting RMB800,000 (2006: RMB900,000).

## **Staff cost information**

For the six months ended 30 June 2007, the salary cost of the Group was approximately RMB5,672,000 (2006: RMB6,109,000). The total employees of the Group were decreased from 691 (30 June 2006) to 629 (30 June 2007). The decrease which is attributable to the Group's effort to adhere the policy stringent cost control in order to improve its production efficiency and cost-effectiveness by reducing cost.

## **Treasury policy**

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

## **Business review**

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

For the six months ended 30 June 2007, the sales turnover of the Group recorded an increase by approximately 7.44% to RMB159,740,678 as compared with that recorded in the corresponding period of 2006.

Gross profit margin decreased from 13.97% to 12.34%, which is attributable to the increase in the sales of compound fertilizer products which is of lower gross profit margin of the fertilizer products. The overall gross profit of the Group amounted to approximately RMB19,715,754, representing a decrease of approximately 5.1% from that recorded in the corresponding period of 2006.

During the period under review, the net loss attributable to the shareholders of the Company amounted to approximately RMB6,015,119, representing an increase by approximately RMB3,953,345 as compared with that recorded in the corresponding period of last year. Such increase was mainly attributable to the rise in the raw materials for fertilizer products.

For the six months ended 30 June 2007, approximately 86.32% of the total turnover was generated from the compound fertilizer products sold whilst the remaining was generated from the sales of the medical and health products.

## **Fertilizer products**

During the period under review, the Group recorded a total sales of approximately RMB137,892,202 of fertilizer products to various customers throughout the PRC.

For the six months ended 30 June 2007, the gross profit derived from the sale of fertilizer products amounted to approximately RMB10,134,298 (30 June 2006: RMB12,603,000).

It is expected that the sale of fertilizer products will be continually and steadily increased in the coming quarters of 2007 as the policy of the PRC central government continues to support and encourage of farmers to improve their productivity by using effective fertilizer products has been firm and continually carried out.

## **Medical and health products**

During the period under review, the Group recorded a total sales of medical and health products of approximately RMB21,848,476, which is increased by approximately 13.56% when compared to the sale in the corresponding period of last year. The increase in sales was mostly contributed by the increase in sale of sugar free almond juice and the chromium-rich milk powder products under the brand “Alpha”, which are widely and generally accepted as the health drinks in the PRC market. The gross profit margin of medical and health products for the six months ended 30 June 2007 was 43.85% (30 June 2006: 42.48%).

For the coming quarters of 2007, the expected increase in sales will depend on the performance of sales of sugar free mooncakes and sugar free almond juice.

The Group continued to sell medical equipment products such as intraocular lens (“IOLs”) products in the PRC market through its subsidiary, Tianjin Wan Tai Bio-Development Company Limited (“Wan Tai”).

During the period under review, there were 7,200 pieces of IOLs sold, arriving at around RMB352,833 (30 June 2007: RMB166,017) even though the competition in the PRC market is fierce.

## **Operation of a subsidiary**

As at 30 June 2007, Fulilong continued to operate five production lines in Guangdong Province, the PRC, and an additional line in Xingping City, Shaanxi Province, the PRC, which adopted the advanced technology known as “Melt Granulation Method with High Tower”. The total annual production capacity of the six production lines was approximately 800,000 tones of fertilizer products. During the period under review, the “Melt Granulation Method with High Tower” project at the production base in Guizhou with an annual production capacity of 200,000 tones was under trial production and will formally commence operation in the second half of 2007. Located in Weifang, Shandong Province, the “Melt Granulation Method with High Tower” project of Shandong Fulilong Fertilizer Industry Co., Ltd., with an annual production capacity of 300,000 tones, has also reached its final stage of completion and is expected to commence production in the coming quarter of 2007.

By then, the Group’s annual production capacity of biological compound fertilizer would reach 1.3 million tones. In its future development, Fulilong, leverage on its existing production lines and sales channels of fertilizers under the brand names of “Fulilong” and “Lvzhou”, will develop and expand its distribution channels throughout the PRC and promote its products as one of the best series of fertilizer products in the high-end market.

The Company issued an announcement on 1 May 2007 to announce that the application by Fulilong for the land use right certificate in respect of a piece of collective construction land in Dongguan, the PRC occupied by it as production workshop was still being processed and that the relevant land use right certificate has not been granted to Fulilong. The Company shall issue an announcement as soon as practicable after Fulilong has obtained the land use right certificate.

### **Distribution and Selling**

For the six months ended 30 June 2007, the Group's distribution and selling expenses amounted to approximately RMB12,899,658 (30 June 2006: RMB11,456,959), representing an increase of approximately 12.59% as compared with the corresponding period last year. Such increase was mainly attributable to the rise in the distribution and selling expenses for fertilizer products.

### **Research and development and administration**

For the six months ended 30 June 2007, the Group's research and development and administrative expenses amounted to approximately RMB8,698,050 (30 June 2006: RMB7,626,539), representing an increase of approximately 14.05% from the amount of expenses recorded for the corresponding period last year. The increase was due to the research and development expenses increased for the development of new series of fertilizer product.

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

### **Future Outlook**

The compound fertilizer industry enjoys brilliant prospect. With the stronger emphasis of the central government on the agricultural industry, rural areas and farmers and that farmers are encouraged to utilize effective fertilizer products for better productivity, the agricultural industry in the PRC shall enjoy a higher momentum of growth. Compound fertilizer will experience a strong market demand with the increase of farmers' income driven by the rising prices for agricultural products and the higher incentive of farmers for investing in agricultural production. According to the forecast of China Phosphate Fertilizer Industry Association (中國磷複肥協會), consumption of compound fertilizer in the PRC will double in the next decade, approaching the consumption level of the medium-developed countries. The Company will grasp this golden opportunity and strive to improve the competitiveness of its products by strengthening its operation management, improving the quality of its products unremittingly and perfecting the products portfolio in accordance with the market demand.

In respect of medical and health products, the Group will, on the basis of its products portfolio and the consumption patterns in different regions, formulate sales strategy for the critical sales period, such as Mid-autumn Festival and the "1 October" Golden Week, in the crucial regions, such as North China, for focal products, such as sugar-free almond milk, sugar-free moon cake and biscuit with a view to enlarging its scale of sales. The present policy of the state has strengthened the supervision over the medical and health products. For example, the Ministry of Health of the PRC further tightened the regulation in relation to the health products industry, while the General Administration of Quality Supervision, Inspection and Quarantine of the PRC has adopted stringent control over food safety. Such regulatory policies help promote the Group's internal management, eliminate unregulated market competition and such development is beneficial to the Group in expanding the market shares of its products.

## Directors' and Supervisors' interests and short positions in shares, underlying shares and debentures

As at 30 June 2007, the interests of the directors and the supervisors of the Company and their respective associates in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were as follows:

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

### Number of shares held and nature of interests

	Personal (note)	Family	Corporate	Other	Total	Percentage of the issued share capital
<i>Director</i>						
Mr. Xie Kehua	9,000,000	–	–	–	9,000,000	1.48%

*Note:* All represented domestic shares.

Save as disclosed in this paragraph, as at 30 June 2007, none of the directors and the supervisors of the Company had interest in any securities, 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) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange as set out in Listing Rules 5.46 to 5.67.

## Directors' and Supervisors' rights to acquire shares

At no time during the period under review was the Company, its subsidiaries or its holding company a party to any arrangement to enable the directors and the supervisors of the Company or their respective 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 30 June 2007, 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 30 June 2007, the directors of the Company were not aware of any other person (other than the directors and the supervisors of the Company) who had an interest and short position in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

## Competing interests

During the six months ended 30 June 2007, none of the directors, the supervisors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) of the Company competes or may compete with the business of the Group or has or may have any other conflicts of interest with the Group required to be disclosed pursuant to the GEM Listing Rules.

## Establishment of an associate

On 8 May 2007, “深圳市諾高生物工程有限公 司”, an associate was incorporated with registered capital of RMB30,000,000. The company is principally engaged in the manufacturing and sales of medical instruments, mainly comprise self-destruction and one-off type syringe. The incorporated associate is owned as to 10% by 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.

The Committee has reviewed the half-yearly results and the half-yearly report of the Group for the six months ended 30 June 2007.

## **Share option scheme**

During the six months ended 30 June 2007, none of the directors or supervisors or employees of the Company or other participants of the share option scheme of the Company was granted with options to subscribe for the H shares of the Company.

## **Management contracts**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered or existed during the half yearly period of 2007 under review.

## **Purchase, sale or redemption of securities**

The Company has not redeemed any of its shares during the period under review. Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company’s shares during the half yearly period of 2007 under review.

## **Corporate governance practices**

The Board and the management of the Company are committed to establishing and maintaining good corporate governance practice code and procedure. The corporate governance principles which the Company complies emphasizes on an efficient board of directors and perfect internal control, as well as the transparency presented to all of the shareholders. For the six months ended 30 June 2007, the Company has adopted the principles as set out in the Code on Corporate Governance Practices of Appendix 15 to the GEM Listing Rules and has complied all the code provisions and the best practices recommended (if applicable).

By Order of the Board  
**Wang Shuxin**  
Chairman

Tianjin, PRC, 9 August 2007

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