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 2007

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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 sugar-free 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.

GROUP STRUCTURE

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)

CORPORATE INFORMATION

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

Non-executive Directors
Mr. Feng Enqing
Mr. Xie Guangbei
Mr. Wang Xiaofa

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

Supervisors
Mr. Zhao Tingying
Mr. Yuan Wei

Independent Supervisors
Mr. Gao Xianbiao
Mr. Zhao Kuiying

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

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TEDA Tianjin, PRC

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Hong Kong Share Registrar and Transfer Office
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Company Website
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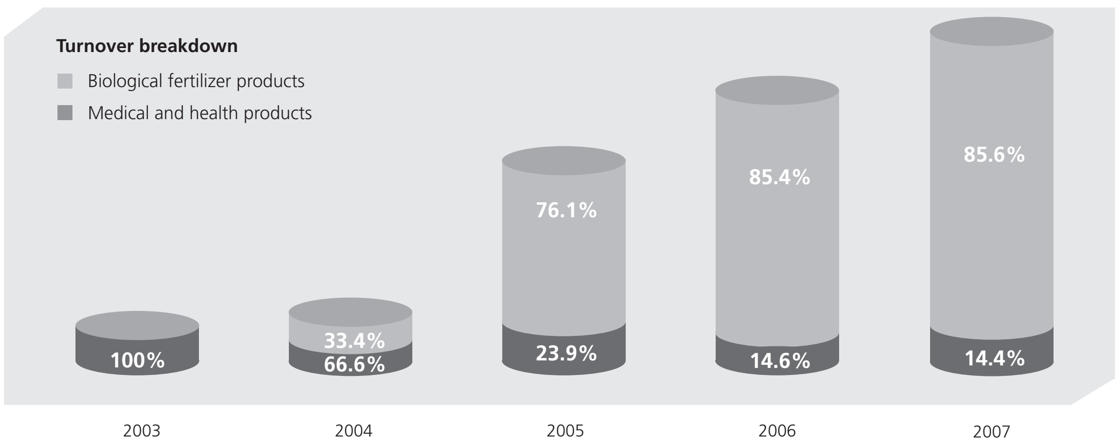
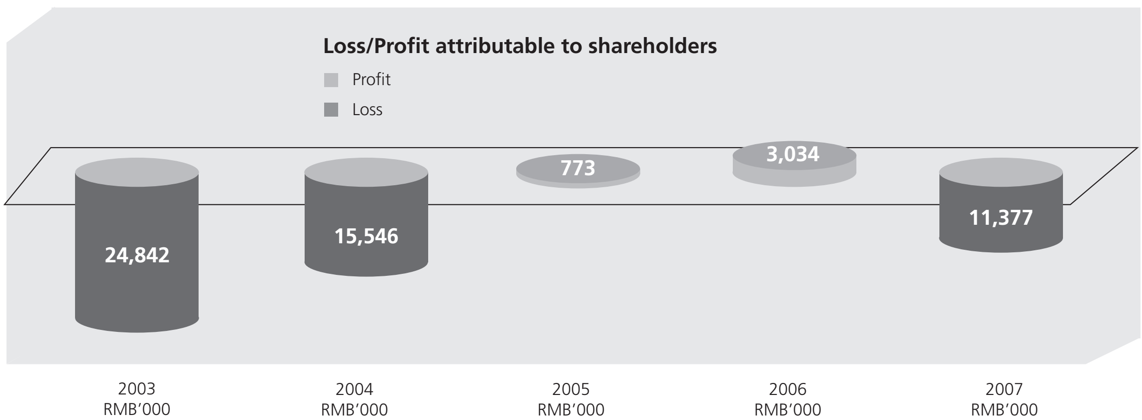
Stock Code
8189

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Results					
Turnover	47,305	58,646	205,032	270,639	**327,955**
Gross profit	22,413	20,961	31,331	43,625	**50,639**
Gross margin	47.40%	35.70%	15.28%	16.12%	**15.44%**
Profit/(Loss) attributable to shareholders	(24,842)	(15,546)	773	3,034	**(11,377)**
Profit/(Loss) per share	(6.21) cents	(3.89) cents	0.15 cents	0.50 cents	**(1.87) cents**

	31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Assets & Liabilities					
Total assets	107,999	123,656	208,266	278,839	**325,601**
Total liabilities	55,948	90,352	110,393	208,097	**266,607**
Shareholders' equity	46,089	30,543	65,374	68,408	**57,031**





CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present this annual report of TEDA Biomedical for the year ended 31 December 2007 on behalf of the Board of Directors (the "Board") of the Company.

2007 was a difficult and challenging year for TEDA Biomedical, yet the Group's scale of operation was managed to attain a rapid growth during the year with combined sales income amounted to RMB327,960,000, representing an increase of 21.18% as compared to the corresponding period last year. With respect to our two major business segments, namely biological compound fertilizer products and medical and health products, the former still took the lead.

The prices of raw materials in Mainland China continued to rise throughout 2007. Such upswing in prices has exerted pressure on our production cost while the shortage of raw materials supply due to the price increase has dampened the Group's output level and rendered us incapable of meeting our customers' demand. During the first quarter, our combined sales income and combined gross profit margin dropped by 6.38% and 12.39% respectively as compared with the same period last year. However, the Group has overcome such adversity and further expanded its presence in the domestic market with the support of its growing marketing network and sales team and by taking advantage of its competitive strengths in its production technology and brand name. During the three months ended 30 September 2007, the Group recorded a 26.6% growth of sales income compared with that recorded in last year and our gross profit margin reached 21.32%. During the year, the Group's income from the sales of biological compound fertilizer products was RMB280,580,000, representing an increase of 21.35% as compared with the same as recorded in the previous year while income from the sales of medical and health products which mainly comprise sugar reducing and sugar-free products was RMB47,370,000, up 20.16% when compared with the same period last year. For the year ended 2007, loss attributable to shareholders amounted to RMB11,380,000 and despite the fact that the Group was not able to achieve the record of making profit for three consecutive years, our business still recorded modest growth and showed impressive growth potential when focusing on our performance over the whole year.

Competition in the PRC's compound fertilizer market remained fierce and with the continued rise of raw material prices, a substantial number of small and medium enterprises were forced to reduce or suspend its production. Nevertheless, large enterprises could take the advantage of its strengths in economic scale; brand name and centralization of capital and make timely adjustment on its product structure and marketing strategy. As large enterprises could reduce the rising cost pressure through the above measures, they could further increase their market shares under such harsh condition. On the other hand, the price increase of agricultural products has increased the demand in fertilizer market and this gave fresh impetus to enterprises of sizeable scale.

During the fourth quarter of 2007, our new production line located in Weifang, Shandong Province with an annual production capacity of 300,000 tonnes of highly condensed compound fertilizer has commenced full-scale production. The commencement of operation of such production line which adopts the technology known as "Melt Granulation Method with High Tower" is important for enhancing the Company's business scale and gross profit margin of our products. The Group will endeavor to develop its products as competitive fertilizers in mid to high-end market with the support of its existing production lines and the sales channels of "Fulilong" brand and the efforts our operation management team.

In addition, our "Alpha" sugar reducing health foods recorded steady growth in sales in the domestic market and has established an advantageous market position. With the growing awareness in health, the domestic sugar-free food market is expected to enjoy a bright prospect. The Group has established a sales network for our sugar-free food products that covers the whole country and this outstanding network could further enhance our growth momentum.

In 2007, the Board, the Supervisory Committee, the Audit Committee, the Nomination Committee and Remuneration Committee and various departments of the Company have played their respective roles to improve the corporate management standards and optimize the internal control system in compliance with the "Code on Corporate Governance Practices" of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited. It is the target of all our staff to continue the growth momentum of the Company's business results.

On behalf of the Board, I would like to express my heartfelt gratitude to all business partners, customers and shareholders of TEDA Biomedical. We look forward to welcoming a successful future ahead.

Wang Shuxin
Chairman

27 March 2008

Business Review

For the year ended 31 December 2007, 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 RMB327,950,000, a 21.18% increase comparing with that of the year before. The series of products under the brand names of "Fulilong" and "Lvzhou" with the certificate for "products exempted from national quality surveillance inspection" granted by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China are its flagship biological compound fertilizers. 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. Guangdong Fulilong has its own strengths in the technology, brand name and marketing network. During 2007, Guangdong Fulilong actively developed the biological compound fertilizer product market and further expanded its distributor network and retail points on the foundation of its existing market. Its products have been sold to 21 provinces and autonomous regions in the PRC and developed as the primary segment of the Group's overall business. TEDA Biomedical's subsidiary in Weifang of Shandong, Shandong Fulilong Fertilizer Industry Co., Ltd. has 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. The operation of the production line has commenced in 2007. The Group realized a sales income from compound fertilizer products of RMB280,580,000, an increase of 21.35% comparing with the same recorded in the year before. For the year ended 31 December 2007, the sales income of medical and healthcare products, with ALPHA series as its flagship healthcare food products, amounted to RMB47,370,000, representing an increase of 20.16% as compared with that of in 2006. ALPHA has further consolidated its market position with its existing resources and has commenced its gradual expansion in an appropriate extent.

An announcement "The Proposed Amendment to the Articles of Association" dated 24 August 2007 and a circular "The Proposed Amendment to the Articles of Association" dated 3 September 2007 issued by the Company disclosed the transfers of 10,000,000 (an aggregate of 20,000,000) domestic shares of the Company held by Tianjin TEDA Shuang You Technology Development Company Limited ("SYT") to each of Mr. Wu Xiaofang (吳曉芳先生) and Mr. Wang Shaoyun (汪少雲先生) as set out in an announcement and a circular of the Company dated 14 June 2006 and 16 June 2006, respectively were not approved by the Ministry of Commerce and were terminated by the parties in August 2007. SYT, as the vendor, entered into agreements with Guangzhou Wenguang Media Company Limited ("Wenguang Media") on 15 August 2007 and Beijing Zhongxing Wuhuan Building Materials Company Limited ("Wuhuan Building") on 16 August 2007 for the transfer of 10,000,000 domestic shares of the Company (an aggregate of 20,000,000 domestic shares, representing 3.28% of the total issued share capital of the Company) to each of the aforementioned companies. In addition, on 15 August 2007, Mr. Yang Fusheng (楊福生先生), a promoter of the Company, also entered into an agreement for the sale of 2,000,000 domestic shares of the Company (representing 0.33% of the total issued share capital of the Company) to Wenguang Media. The special resolution relating to the proposed amendment to Article 20 of the Articles of Association of the Company has been duly passed at the Extraordinary General Meeting held on 18 October 2007.

The Company issued a circular dated 18 September 2006 in relation to the proposed placing of the New Placing H Shares, proposed granting of the Specific Mandate and proposed amendments of articles of association and the above resolutions has been passed at the Extraordinary General Meeting and the Class Meetings held on 20 November 2006. The Company issued an announcement and a circular "(I) Proposed Granting of the New Specific Mandate; and (II) Proposed Appointment and Re-election of Directors and Supervisors" on 1 November 2007 and 8 November 2007, respectively. In view of additional time is needed by the Company to obtain the approval of the issue of the New Placing H Shares by the China Securities Regulatory Commission ("CSRC"), the directors proposed to obtain the New Specific Mandate. The aforementioned resolutions in respect of (I) the proposed granting of the New Specific Mandate; and (II) the proposed appointment and re-election of Directors and Supervisors were duly passed at the Extraordinary General Meeting and the Class Meetings held on 24 December 2007. The Company has obtained "Approval on addition issuance of overseas listed foreign shares of Tianjin TEDA Biomedical Engineering Company Limited" from the CSRC on 12 December 2007 and the application of the above proposed placing of new H Shares was duly approved.

Operating Environment

Since agriculture plays a prominent role in China's economy and in consideration of the current development of the farming sector, the Chinese government has put great emphasis on agricultural modernization over the years. China exempted agricultural tax from 2006 in an attempt to cut down cost of agricultural production and such tax preferential policy has substantially increased agricultural productivity and the demand for fertilizers. As the world's largest fertilizer producer and consumer, China's national output of fertilizers in 2006 amounted to approximately 53 million tonnes which accounted for about 1/3 of the world's total output and demonstrated an annual growth rate of over 10%. In 2006, China's national consumption of fertilizers was 56.71 million tonnes with its self-sufficiency rate reached about 93% while its industrial consumption of fertilizers amounted to about 1/3 of the world's total. The sales volume of diversified compound fertilizers increased rapidly in recent years. In 2002, the consumption of compound fertilizers represented 22% of the total consumption of all fertilizers and such figure has jumped to over 30% in 2007. As a result of the effective promotion of formula fertilizing by the state, compound fertilizers have dominated the future development of China's fertilizer industry. In the meantime, the robust development of compound fertilizer industry has immensely stimulated the growth of the upstream raw material manufacturing industry. However, the rapid development of resources-oriented industry has further highlighted the problem of scarcity in resources of our country and the outcome for a mismatch of supply and demand would be the substantial increase of prices of resources-type raw materials. In addition, the insufficiency of transport capacity of China's railway system and the upsurge of oil prices have aggravated the imbalance of supply and demand of raw materials. In short, raw material supply is the key to the development of compound fertilizer industry. Proprietary formula fertilizer which is characterized by its market-oriented nature is expected to dominate the future development of compound fertilizer products. However, such product, being more regional-oriented and having relatively low demand in quantity, fails to satisfy the requirements of cost-effective mass production for lowering the total costs. Problems as to how to extend the application of a single type of formula fertilizer in order to reduce loss arising from product conversion during the production process and how to make use of modern logistics means such as agricultural production information, chain supermarkets for establishing a terminal sales network will become the challenges that compound fertilizer industry has to face. The state has gradually implemented market-oriented reforms in the fertilizer industry and reduced government's direct intervention in the market prices of fertilizers with an aim to promoting the sound development of the fertilizer industry and creating a fair playing field for fertilizer enterprises.

Currently, the customer base of the sugar-free food products of the Group, including diabetes, people with high blood sugar levels and high blood cholesterol levels, remain relatively stable. With a rising living standard and higher health awareness, people will put more emphasis on low-sugar and low-calorie food in their diets. As one of the health products, sugar-free food products have been increasingly recognized and accepted. It is now recognized that sugar-free food products are not only for diabetes, but also have other advantages such as preventing obesity, tooth decay and high blood sugar levels and blood cholesterol levels. More youngsters and parents prefer sugar-free food products for the benefits of their own and their children. This reflects that sugar-free food products have become one of the uprising trends in healthcare products industry.

As the PRC's population is aging, the proportion of total population aged 60 or above has increased from 10.45% in 2000 to 13% in 2005. Aging population and higher health awareness among people will drive the demand for medical and health products. The average per capita disposable income of urban resident in the PRC kept rising every year. The growth in economy will also boost the demand for medical services among the residents. Given the gradual improvement in the medical systems in the PRC, the medical and healthcare industry is expected to attain sustainable and stable long-term growth. Meanwhile, the medical and healthcare market in the PRC has become increasingly competitive. State and local administrative departments of the industry have tightened the measures and adopted different policies for regulating and optimizing the market for medical device products, healthcare food products for controlling blood sugar levels and sugar-free food products and this serves to create a favourable environment for the healthy and continuous development of enterprises engaging in these businesses.

Operating Environment *(continued)*

During the year ended 31 December 2007, in light of the rapid growth in the sales of the Company's biological compound fertilizer products and medical and health products, the Group's total turnover amounted to approximately RMB327,960,000 (excluding other revenues), representing an increase of 21.18% as compared with RMB270,640,000 recorded in 2006.

During the year ended 31 December 2007, a network of 474 direct compound fertilizer supply distributors in 21 provinces, cities and autonomous regions in the country was established and this network has contributed approximately RMB280,580,000 to the sales turnover of the Group and approximately RMB29,040,000 to the sales gross profit. The gross profit margin of compound fertilizers product was 10.35%, resulting in a change in the Group's overall gross profit margin from 16.12% in 2006 to 15.44% in 2007. With the commencement of operation of the Group's newly-built production bases which adopt new technology, the gross profit margin from the sales of biological fertilizers will rise.

In 2007, the profit and loss attributable to the shareholders of the Group turned from a profit of approximately RMB3,030,000 in 2006 to a loss attributable to the equity holders of approximately RMB11,380,000 in 2007. The principal underlying reason is that the increasing prices of raw materials during the period under review have led to an increase in the costs of the products and inadequate supply. Therefore, the limited production volume fails to satisfy the demand of our customers. Soared R&D expenses and increase in finance costs are also major causes to the loss attributable to the equity holders.

Production and Research and development

In early 2007, the Group's sugar-free almond juice under the brand "Alpha" was recognized as one of the better quality products for the second consecutive year in the National Supervision and Selective Examination Report on Vegetable Protein Beverages issued by the General Administration of Quality Supervision, Inspection and Quarantine of PRC. "Alpha" sugar-free mooncakes also passed a quality system certification examination and obtained a B-grade certificate in May 2007. In November 2007, the QS annual inspection on quality and safety of "Alpha" oatmeal and biscuits for diabetic patients was duly passed and an A-grade certification was obtained.

Guangdong Fulilong has also successfully passed its quality system annual inspection. Biological organic fertilizers under the Group's "Fulilong" registered trademark was awarded the Green Food Production Material (綠色《綠色食品生產資料》) certificate in August 2007 and application for the relevant government award has been made. In October 2007, Guangdong Fulilong completed the final inspections and reporting of the Dongguan municipal-level technical modification project, "Research and Application of New Tri-compound Fertilizer," as well as the Guangdong provincial-level key technological innovation project, "Extended Trial and Demonstration of the Production of Organic/Inorganic Biological Fertilizer with Waste from Food Industries." In addition, the reporting of "Research and Development of Key Technologies in Relation to the Large-scale Production of All-nutrition Compound Fertilizer," a corporate subsidized research and development project, has been completed and this project has been submitted for filing purpose. In November 2007, Guangdong Fulilong passed the on-site inspection conducted by the "Enterprises Engineering Research Centre" successfully, in which inspections and reviews have been focused on the selection and fermentation of active bacteria for biological fertilizer, fermentation equipment for bacteria fluid and the preservation of active bacteria.

The Group's production base in Weifang, Shandong Province, which has a production line with an annual production capacity of 300,000 tonnes of highly condensed biological compound fertilizer and the technology known as "Melt Granulation Method with High Tower" applied, commenced production in 2007. Shandong Fulilong obtained the National Industrial Products Production License issued by the General Administration of Quality Supervision, Inspection and Quarantine of PRC in September 2007. In November 2007, Shandong Fulilong filed its "Production Project of Compound Fertilizer with Tower for Spraying Granulation" as one of the candidate projects for the Scientific and Technological Awards.

Application for government subsidies for the intraocular Lens (IOL) projects was completed and approved in accordance with the terms of subsidies for the commercialization of medical equipment as set out in the Rules of the Promotion of High Technology Industries in the Tianjin Economic-Technological Development Area.

Sales Highlights

As at 31 December, 2007, the Group generated a combined sales income of RMB327,960,000, representing an increase of 21.18% compared with the previous year, among which the income from the sales of biological compound fertilizer products was RMB280,580,000, a 21.35% growth from the last year. The sales income contribution of those products accounted for 85.6% of the Group's combined sales income. The growth in the sales of the Group's biological compound fertilizers is attributable to the popularity of "Fulilong" brand, the technological strengths and the network distribution and marketing methods.

Another source of the Group's sales was its medical and health products, which are mainly composed of "Alpha" diabetic and sugar-free health food products. As the sales of sugar-free food increased, the total sales of medical and health products reached approximately RMB47,370,000 in 2007.

Financial Status and Capital Structure

The Group's loss attributable to the equity holders for the year ended 31 December 2007 was approximately RMB11,380,000, as compared with the profit for 2006 of approximately RMB3,030,000. The loss was mainly attributable to the price hike and shortage of raw materials supply, a substantial increase in the research and development costs and a rise in finance costs. Finance costs increased by 38.44% due to the increase in bank loans while the administrative expenses decreased by approximately 25.82% compared to the corresponding period in 2006, and the research and development expenses increased by 87.28% as compared with the corresponding period in 2006.

The Group's capital structure as at 31 December 2007 is as follows: total assets amounted to RMB325,600,000; current assets, fixed assets, investments (including interest in an associate) and other non-current assets accounted for 55.4%, 32.6%, 6.7% and 5.3% of the total assets respectively.

Future Outlook

The PRC is characterized by its huge population, shortage of land as well as the lack of food and material supplies. Therefore, the PRC government adopts an agricultural policy that encourages the PRC chemical fertilizer industry to expand and satisfy the domestic demand. On the basis of the present population and its pace of growth, the PRC population is expected to reach 1.45 billion in 2030, while the demand for food will amount to 640 million tonnes, and this development will serve as the drive for the huge demand of fertilizers. On the ground that the supply of fertilizers can only be satisfied with a strong fertilizer industry, the PRC government has implemented various measures to boost the production capacity of chemical fertilizers, under which the total value of production of the PRC fertilizer industry has reached RMB240.9 billion in 2005, while the aggregate value of production of the industry as a whole (including the value-added in different production segments) has amounted to the range of approximately RMB280.0 billion to approximately RMB300.0 billion with a production volume of 51,778,600 tonnes, accounting for 30% of the world total production. During the past two decades, consumption volume of fertilizers in the PRC increased rapidly, and, according to the forecast of the Ministry of Agriculture, such growth will continue in the next 15 years. Leveraged on its edge in products distribution supported by its established nation-wide marketing network that covers almost every region and its leading technology in the production of compound fertilizer with "Melt Granulation Method with High Tower," as well as its increased marketing efforts, the Group will, under its adopted customer-oriented approach, be able to provide timely market information updates to its customers and adhere to its direction of developing its proprietary brands and strengthening its core competitiveness.

Future Outlook *(continued)*

The Group has established a sales network for its "Alpha" brand diabetic health products and sugar-free food that covers major hypermarkets across the country, such as Wal-mart, Carrefour, China Resources Vanguard, RT-Mart, Nanjing Suguo Supermarket and Beijing Wumart. Foods suitable for diabetics as well as xylitol whole-wheat biscuits, sugar-free almond juice, sugar-free orange juice and sugar-free mooncakes for the general market developed by Alpha, with which the national standards on healthcare products and sugar-free foods has been complied, have improved in terms of texture and quality, and this makes Alpha an intergrated enterprise which engages in the development and manufacturing of all the six major types of diabetic food products with the approval of the Ministry of Health of the PRC. For broadening the food choices of diabetes patients, the Group has developed a series of functional sugar-free foods under two major product lines of sugar-reducing products and sugar free products:

Categories	Product Name	Approval Reference Number	Health Certificate Number
Sugar-reducing health foods	Alpha chromium-rich milk powder	Wei Shi Jian Zi (2003) No. 0227	Jin Wei Shi Zheng Zi (2007) No. 120100 – Jian 00046
	Alpha Diabetic Oatmeal	Wei Shi Jian Zi (2000) No. 0302	
	Alpha Diabetic Tea	Wei Shi Jian Zi (2000) No. 0648	
	Alpha Sugar-Reducing Biscuits	Wei Shi Jian Zi (1997) No. 643	
	Alpha Nutritious Noodles	Wei Shi Jian Zi (96) No. 023	
	Alpha Sugar Reducing Powder	Wei Shi Jian Zi (96) No. 024	
	Alpha Mitongshu	Wei Shi Jian Zi (96) No. 025	
Sugar-free foods	Alpha Orange-flavour Sugar-free Beverages	QS1100 0601 3377	Jin Wei Shi Zheng Zi (2004) No. 120000 – Kai S00032
	Alpha Sugar-free Almond Juice	QS1308 0601 2141	
	Alpha Soybean Milk Powder	QS1216 0601 0069	
	Alpha Nutritious Oatmeal	QS1216 0701 0010	
	Alpha Sugar-free Mooncakes	QS1216 2401 0005	
	Alpha Nutritious Biscuits	QS1216 0801 0224	
	Alpha Xylitol Whole-wheat Biscuits	QS1216 0801 0224	
	Alpha Nutritious Dry Noodles	QS1214 0103 0002	
	Alpha Xylitol Sweetener		
	Alpha Aspartame		

Future Outlook *(continued)*

The Group will further segregate the sugar-free foods market segments and introduce sugar-free foods with different characteristics, such as anti-caries, weight-control and fiber-rich to cater different customers group with a target to diversify the product portfolio and to enlarge the market share. The Group is determined to expand the target customer base of sugar-free food and gradually turn the brand of "Alpha" that represents professional health food for diabetics to a professional brand that provides suitable health food for mid-aged groups and senior citizens and even youngsters. To achieve the strategy of diversifying the targeted customer group with extended product mix, the first step is to gain a presence in the consumption market of sugar-free food of middle-age group of senior citizens. According to the China National Commission on Aging under the State Council, the value for the annual market demand for the aging population in the PRC amounted to RMB600 billion and will reach RMB1,000 billion in 2010, while the value of elderly products in the present market amounted to only RMB100 billion, and this gives rise to huge market opportunities. As the population of senior citizens increases and the market of professional products develops with the demand from the elderly expanded and their higher requirements for quality products, it is expected that the market shares of the elderly industry among different segments of the economy will rise persistently and the elderly industry will become a new drive for economic growth. In the long-term, elderly products will occupy more important share in the market of the PRC aging population and with the new development opportunities arise in the elderly consumer market, professional enterprises with clear market position shall enjoy huge room for growth. In addition to a variety of quality sugar-free products to the target consumer groups, a professional brand of sugar-free foods shall also commit to satisfy the multidimensional requirements on quality foods of consumers and to offer inspiration to consumers with the proper and scientific healthcare information with the target to establish a sustainable friendly sugar-free foods market.

With the solid market foundation that has been built, the Group will accelerate its pace of market development of its medical and healthcare products.

Segment 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 2007 and the year ended 31 December 2006 are disclosed in Note 5 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 2007, the Group's consolidated total equity, current assets and net current liabilities were about RMB59.0 million (2006: RMB70.7 million), RMB180.4 million (2006: RMB141.4 million) and RMB86.2 million (2006: RMB65.4 million) respectively. The Group's current assets as at 31 December 2007 comprised mainly cash and bank balances of RMB45.4 million (31 December 2006: RMB19.8 million), trade receivables of RMB55.3 million (31 December 2006: RMB56.6 million) and inventories of RMB51.3 million (31 December 2006: RMB37.8 million).

As at 31 December 2007, the total bank borrowings of the Group amounted to RMB96.7 million (31 December 2006: RMB104.4 million). The bank borrowings are denominated in Renminbi and provided by various licensed banks in China with fixed interest rates from 6.1% to 8.9% (31 December 2006: 5.6% to 7.6%) per annum. Of the bank borrowings, a total amount of RMB31.0 million, RMB28.7 million, RMB36.5 million and RMB0.5 million will mature in January, 2008, March 2008, April 2008 and August 2008 respectively.

As at 31 December 2007, the Group's gearing ratio, defined as the ratio of total bank borrowings to total assets, was 0.297 (31 December 2006: 0.374). The liquidity ratio of the Group, represented by the ratio of current assets over current liabilities, was 0.677 (31 December 2006: 0.684).

Directors

Executive Directors

Mr. Wang Shuxin, aged 43, 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 postgraduate 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.

Mr. Xie Kehua, aged 51, 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 45, received his education in 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. Since the end of 2005, 4 January 2006 and 15 June 2006, Mr. Zhang has been appointed as a director of Fulilong, the CEO and executive director of the Company respectively. He resigned from the post of CEO of the Company on 10 August 2006.

Non-executive Directors

Mr. Feng Enqing, aged 49, 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 53, 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劃經營處), 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 has been appointed as a non-executive director since November 2003.

Directors *(continued)*

Non-executive Directors *(continued)*

Mr. Wang Xiaofa, aged 42, is an economist. He graduated from Liaoning Finance College (遼寧財經學院) with a bachelor degree in Economics in 1985 and obtained a Master degree in Economics from North-East Finance University (東北財經大學) in 1996. He specializes in infrastructure finance and securities investment and he has been an assistant general manager of Beijing Guoyuan Investment Consulting Company (北京國元投資諮詢公司) from 2000. Mr. Wang Xiaofa has been appointed as an independent supervisor of the Company since 12 September 2006 and his existing tenure will expire on 31 December 2007.

Independent Non-executive Directors

Professor Xian Guoming, aged 56, is a professor of Nankai University (南開大學) 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 international investments by multi-national corporations. Professor Xian has been appointed as an independent nonexecutive director of the Company since August 2001.

Mr. Guan Tong, aged 39, 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.

Mr. Wu Chen, aged 63, 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. Mr. Wu Chen has been appointed as an independent non-executive director of the Company since September 2006.

Supervisors

Mr. Zhao Tingying, aged 32, graduated from the Accounting Department of Tianjin University of Finance and Economics with a bachelor's degree in Economics in 1998. He joined 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 vice 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.

Supervisors *(continued)*

Mr. Yuan Wei, aged 57, graduated from the Tianjin School of Chinese Traditional Medicine in 1975. He previously held the position of head of quality control at the Tianjin Chinese Medicine Plan before joining Alpha in August 1994. He is currently the administrative officer of Alpha. Mr. Yuan Wei was appointed as a supervisor of the Company in September 2000.

Independent Supervisors

Mr. Gao Xianbiao, aged 46, 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.

Mr. Zhao Kuiying, aged, 39, is an economist. He graduated from Nankai University (南開大學) with a bachelor degree in Finance in 1990 and subsequently obtained a master degree in Economics from Tianjin University of Finance and Economics (天津財經大學). He specializes in financial management and analysis. He was positioned in various posts in branches of the Agricultural Bank of China from 1990 to 2000 and China CITIC Bank from 2000 and has been the head of a branch office of China CITIC Bank in Tianjin since August 2005.

Senior Management

Chief Executive Officer

Mr. Hao Zhihui, aged 46, graduated from Tianjin Medical University in August 1984 with bachelor's degree inmedicine 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 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 47, was an associate member of the Association of Cost and Executive Accountants in September 1985 and became a fellow member of that Association in October 1986. In November 1997, he was awarded a Graduate Diploma in Administration and a Bachelor Degree of Arts by Australian Catholic University, Australia and Ottawa University, Ottawa, Kansas State, the United States of America respectively. Mr. Ng became a member of the Institute of Certified Public Accountants in Ireland in October 2002, a fellow member of the Institute of Chartered Secretaries and Administrators in November 2003 and an associate member of the Association of International Accountants in June 2004. In April and July 2005, Mr. Ng became a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Taxation Institute of Hong Kong respectively. Before joining the Company, Mr. Ng has more than 10 years audit experience.

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the previous year, all members of the Supervisory Committee of Tianjin TEDA Biomedical Engineering Company Limited have adhered to the principle of integrity with a prudent attitude and duly carried out their respective supervisory duties. The Supervisory Committee of Tianjin TEDA monitored the resolutions and decisions made by the Board of Directors to ensure that such resolutions and decisions comply with the relevant laws, regulations and the Article of Association and are in line with the best interests of the Company and its shareholders, and therefore the rights of the shareholders and the sustainable development of the Company are secured.

I. Meeting of the Supervisory Committee

On 10 May 2007, the tenth 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 2007 of the Company was reviewed and approved;

On 9 August 2007, the eleventh 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 2007 of the Company was reviewed and approved;

On 8 November 2007, the twelfth 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 2007 of the Company was reviewed and approved;

On 27 March 2008, the first meeting of the Third 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 2007 audited by Shu Lun Pan Horwath Hong Kong CPA Limited was reviewed and approved.

II. Jobs Carried Out by the Supervisory Committee

In view of the difficulties faced by the Company, our management team has taken a proactive stance and has succeeded in keeping up the growth momentum for the Company. In 2007, the Company faced challenges arising from the upsurge in prices of raw materials and intense market competition. Although profits for the whole year were relatively unstable as compared with the two previous years, it is obvious that the management of the Company has gradually come up with a remedial marketing strategy in the second half of the year in an attempt to alleviate the negative effects resulting from rising costs. It is expected the Company will maintain its positive trend in terms of scale of operation and profits in the future and generate the greatest returns for its shareholders. 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 the financial statements and accounts of the Company. The auditor's report issued by Shu Lun Pan Horwath Hong Kong CPA Limited truly, fairly and accurately reflects the Group's financial position and operating results.

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 endeavor 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

Supervisory Committee
Zhao Tingying

27 March 2008

Corporate Governance Practices

The Company understands that corporate governance is of great importance to the Company and has endeavored to apply the code provisions as set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") to the internal operations of the Company, including all its subsidiaries. In the opinion of the Board, the Company has complied with all the code provisions by establishing formal and transparent procedures to protect the interests of shareholders during the period under review.

Directors' Securities Transactions

For the year ended 31 December 2007, 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 15 to 17 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 2007 were:

Executive Directors
Mr. Wang Shuxin (王書新)
Mr. Xie Kehua (謝克華)
Mr. Zhang Songhong (張松鴻)

Non-executive Directors
Mr. Feng Enqing (馮恩慶)
Mr. Xie Guangbei (謝光北)
Mr. Liu Zhenyu (劉振宇) (Resigned on 31 December 2007)
(Mr. Wang Xiaofa (王校法) was appointed on 1 January 2008)

Independent non-executive Directors
Professor Xian Guoming (冼國明)
Mr. Guan Tong (關彤)
Mr. Wu Chen (吳琛)

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. The Board has appointed Mr. Hao Zhihui to act as the Chief Executive Officer of the Company. 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.

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.

The Board complied 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.

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

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.

Board of Directors and Board Meeting *(continued)*

The Board held nine meetings in 2007, 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)	9/9
Mr. Xie Kehua (謝克華)	9/9
Mr. Zhang Songhong (張松鴻)	6/9
Non-executive Directors	
Mr. Feng Enqing (馮恩慶)	9/9
Mr. Xie Guangbei (謝光北)	6/9
Mr. Liu Zhenyu (劉振宇) (Resigned on 31 December 2007)	1/9
(Mr. Wang Xiaofa (王校法) was appointed on 1January 2008)	
Independent non-executive Directors	
Professor Xian Guoming (冼國明)	2/9
Mr. Guan Tong (關彤)	8/9
Mr. Wu Chen (吳琛)	9/9

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 attends 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.

Nomination and Remuneration Committee

According to the Code, the Company has set up a remuneration committee on 11 November 2005, and established a nomination committee on 10 August 2006 and together with the Remuneration Committee was renamed as the "Nomination and Remuneration Committee", with a majority of the members thereof being independent non-executive Directors. The Nomination and Remuneration Committee comprises Mr. Xie Guangbei (謝光北), a non-executive Director, Mr. Wu Chen and Mr. Guan Tong, both independent non-executive Directors, with Mr. Xie Guangbei (謝光北) as the chairman of the nomination and remuneration committee. The nomination and remuneration committee held three general meetings in 2007.

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 and Remuneration Committee *(continued)*

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.

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 5.33 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;

Audit Committee *(continued)*

- 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.

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)	1/4
Mr. Guan Tong (關彤)	4/4
Mr. Wu Chen (吳琛)	4/4

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 2007 and the audited financial statements for the year ended 31 December 2007 and the internal control system of the Group.

Auditor's 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 Auditor

Horwath Hong Kong CPA Limited, Certified Public Accountants (renamed as "Shu Lun Pan Horwath Hong Kong CPA Limited" in 2007, "Horwath"), had been recommended by the audit committee and appointed by the shareholders as the External Auditor of the Company and its subsidiaries with effect from 21 May 2007 until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the financial year ended 31 December 2007 have been audited by Horwath.

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

The Group's External Auditor are Horwath for the years ended 31 December 2007 and 2006.

During the year, Horwath has not provided significant unaudited services to the Group. Set out below are the services offered by Horwath and their respective fees:

	Fee Charged	
Types of Services	**for the year ended 31 December 2007 RMB'000**	for the year ended 31 December 2006 RMB'000
Audit for the Group	**980**	910

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 auditor of the Company, Shu Lun Pan 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 pages 34 and 35 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)(ii) to the accompanying audited financial statements for the year ended 31 December 2007.

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 2007.

Principal Activities and Geographical Analysis of Operations

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

The activities of the subsidiaries are set out in Note 16 to the accompanying financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the accompanying financial statements.

Change of Share Capital

Details of the movements in share capital of the Company are set out in Note 28 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 36 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 41 of this annual report and Note 29 to the accompanying financial statements respectively.

Distributable Reserves

At 31 December 2007, the Company had no reserves available for distribution.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 14 to the accompanying financial statements.

Pre-emptive Rights

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 2007 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 and up to the date of this report were:

Executive Directors:	
Mr. Wang Shuxin (王書新)	(re-elected on 1 January 2008)
Mr. Xie Kehua (謝克華)	(re-elected on 1 January 2008)
Mr. Zhang Songhong (張松鴻)	(re-elected on 1 January 2008)
Non-executive Directors:	
Mr. Feng Enqing (馮恩慶)	(re-elected on 1 January 2008)
Mr. Xie Guangbei (謝光北)	(re-elected on 1 January 2008)
Mr. Wang Xiaofa (王校法)	(appointed on 1 January 2008)
Mr. Liu Zhenyu (劉振宇)	(resigned on 31 December 2007)
Independent Non-executive Directors:	
Professor Xian Guoming (冼國明教授)	(re-elected on 1 January 2008)
Mr. Guan Tong (關彤)	(re-elected on 1 January 2008)
Mr. Wu Chen (吳琛)	(re-elected on 1 January 2008)
Supervisors:	
Mr. Zhao Tingying (趙挺穎)	(re-elected on 1 January 2008)
Mr. Yuan Wei (袁偉)	(re-elected on 1 January 2008)
Independent Supervisors:	
Mr. Gao Xianbiao (高賢彪)	(re-elected on 1 January 2008)
Mr Zhao Kuiying (趙魁英)	(appointed on 1 January 2008)
Mr. Wang Xiaofa (王校法)	(resigned on 31 December 2007)

Mr. Liu Zhenyu (劉振宇) resigned as a non-executive director on 31 December 2007. Mr. Wang Xiaofa (王校法) resigned as an independent supervisor on 31 December 2007 and was appointed as a non-executive director on 1 January 2008. Mr. Zhao Kuiying (趙魁英) was appointed as independent supervisor on 1 January 2008.

As such, the number of executive directors, non-executive directors and independent non-executive directors of the Company maintained at three respectively. The number of supervisors of the Company remained at four, including two independent supervisors.

According to the provisions of the Company's Articles of Association, directors are appointed at the annual general meeting for a term of three years and shall have the right for re-election upon expiry of the term. All present directors of the Company were appointed for a term of three years and will continue in office upon re-election.

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 respects identical and are set out below:

(i) Each contract (except for those of Mr. Zhang Songhong (張松鴻), Mr. Guan Tong (關彤) and Mr. Wu Chen (吳琛) and Mr. Wang Xiaofa (王校法) who was appointed on 1 January 2008) 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 held on 24 December 2007, 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 held on 24 December 2007, may be renewed for three years.

(iii) The service contract of Mr. Wang Xiaofa (王校法) is for an initial term of three years commencing on 1 January 2008, thereafter subject to the approval of the shareholders' meeting of the Company, may be renewed for three years.

None of the Directors has entered into a service contract with the Company, which cannot be terminated by the Company within one year without payment of compensation, other than statutory compensation.

As to the remunerations of the directors and supervisors of the Company for the year ending 31 December 2008, the board of directors of the Company has been authorized to determine the remunerations of the directors and supervisors on the basis of the prevailing market rate and after receiving recommendation from the remuneration committee of the Company.

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 15 to 17 of this annual report.

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

As at 31 December 2007, the interests of the directors, supervisors and the chief executives of the Company and their respective associates in the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were as follows:

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

Directors	Number of shares held and nature of interests 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 2007, none of the directors, the supervisors or chief executives 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 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.

Substantial Shareholders *(continued)*

Save as disclosed above, as at 31 December 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.

Placing

As mentioned in the announcement and circular made by the Company on 5 September 2006 and 4 September 2006 respectively, 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 an aggregate of not more than 374 million H Shares at the Placing Price. The New Placing H Shares should be issued pursuant to a specific mandate from the Shareholders. In an extraordinary general meeting, a class meeting of the holders of the Domestic Shares and a class meeting of the holders of the H Shares all held on 20 November 2006, the Shareholders, the holders of the Domestic Shares and the holders of the H Shares respectively resolved to grant to the Board a specific mandate to issue not more than 374 million New Placing H Shares for the period from 20 November 2006 to 19 November 2007.

The Company issued an announcement and a circular "(1) Proposed Granting of the New Specific Mandate; and (II) Proposed Appointment and Re-election of Directors and Supervisors" on 1 November 2007 and 8 November 2007 respectively. The Company was seeking the approval of the issue of the New Placing H Shares from the China Securities Regulatory Commission ("CSRC") at that time and in view of additional time was required to obtain the approval from the CSRC, the Directors proposed for the granting of the New Specific Mandate. The major terms of the New Specific Mandate are as follows:

- To issue not more than 374 million New Placing H Shares;

- The Placing Price will not be at a discount of more than 10% 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 nor less than the net asset value per H Share; and

- The New Specific Mandate is for the New Relevant Period, that is, for the period from the passing of the relevant resolutions at the Further EGM and the Further Class Meetings up to the earliest of: (i) expiration of the 12-month period following the passing of relevant resolutions at the Further EGM and Further Class Meetings; or (ii) the revocation or amendment of the authority given under the relevant resolutions at the Further EGM and the Further Class Meetings by a special resolution of the Shareholders in a general meeting.

The resolutions of (1) Proposed Granting of the New Specific Mandate; and (II) Proposed Appointment and Re-election of Directors and Supervisors were approved at the EGM and Class Meetings held on 24 December 2007. In addition, the Company has received from CSRC "Approval on addition issuance of overseas listed foreign shares of Tianjin TEDA Biomedical Engineering Company Limited" dated 12 December 2007, which duly approved the application by the Company for the above proposed placing of new 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 2007, 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:	6%
– Five largest suppliers combined	27%
Sales	
– The largest customer	4%
– Five largest customers combined	13%

Connected Transactions

Significant related party transactions entered by the Group during the year ended 31 December 2007, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in Note 36 to the accompanying financial statements.

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

Share Option Scheme *(continued)*

• Participants	Full-time key employees including any executive directors of the Company and its subsidiaries who have been working for the Company or its subsidiaries for one or over one year and have shown good or outstanding performance for employees who are PRC nationals and have taken up any options to subscribe for the Company's H shares, they shall not be entitled to exercise the options until: (i) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H shares or any laws and regulations with similar effects have been abolished or removed, and (ii) The China Securities Regulatory Committee or other relevant government authorities in 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
• 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

Share Option Scheme *(continued)*

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

During the year ended 31 December 2007, 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. 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 2007.

Corporate Governance

A report on the principal corporate governance practices adopted by the Company is set out on pages 20 to 25 of this annual report.

Auditor

On 9 October 2007, Horwath Hong Kong CPA Limited changed its name to Shu Lun Pan Horwath Hong Kong CPA Limited. The financial statements have been audited by Shu Lun Pan Horwath Hong Kong CPA Limited who retire and, being eligible offer themselves for re-appointment. A resolution will be submitted to the annul general meeting to re-appoint the auditor, Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company.

On behalf of the Board

Wang Shuxin
Chairman

Tianjin, China, 27 March 2008

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
香港立信浩華會計師事務所有限公司

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TO THE SHAREHOLDERS OF
TIANJIN TEDA BIOMEDICAL ENGINEERING COMPANY LIMITED

(A joint stock company 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") and its subsidiaries (collectively referred to as the "group") set out on pages 37 to 90, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 and of the loss 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.

Without qualifying our opinion, we draw attention to Note 2(b)(ii) in the financial statements which indicates that the group suffered accumulated losses of RMB82,388,734 at 31 December 2007 and, as of that date, the group's current liabilities exceeded its current assets by RMB86,172,788. These conditions, along with other matters as set forth in Note 2(b)(ii), indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

Chan Kam Wing, Clement
Practising Certificate number P02038

27 March 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 RMB	2006 RMB
Turnover	5	**327,954,880**	270,639,221
Cost of sales		**(277,315,706)**	(227,013,769)
Gross profit		**50,639,174**	43,625,452
Other revenue	5	**1,491,205**	6,587,070
Selling and distribution costs		**(24,819,330)**	(20,795,398)
Administrative expenses		**(19,022,874)**	(25,644,292)
Research and development expenses		**(7,297,842)**	(3,896,670)
Finance costs	6	**(10,342,782)**	(7,470,936)
Share of results of an associate		**(1,318,912)**	163,849
Excess of interest in the net fair value of assets and liabilities of a subsidiary acquired over cost	7	**–**	3,126,187
Gain on disposal of subsidiaries	31	**–**	6,869,968
(Loss)/profit before taxation	8	**(10,671,361)**	2,565,230
Income tax	9	**(1,076,871)**	(326,253)
(Loss)/profit for the year		**(11,748,232)**	2,238,977
Attributable to:			
Equity holders of the Company	10	**(11,377,409)**	3,034,418
Minority interest		**(370,823)**	(795,441)
		(11,748,232)	2,238,977
(Loss)/earnings per share – Basic (RMB)	12	**(1.87 cents)**	0.50 cents

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Note	**2007** **RMB**	2006 RMB
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	**106,004,768**	97,854,782
Goodwill on consolidation	15	**3,133,932**	3,133,932
Interests in an associate	17	**18,980,641**	20,299,553
Available-for-sale investment	18	**3,000,000**	–
Trade receivables	21(c)	**1,815,818**	3,348,169
Other receivables	22	**6,119,116**	9,456,816
Lease prepayments	19	**6,112,515**	3,335,915
		145,166,790	137,429,167
Current assets			
Inventories	20	**51,278,714**	37,844,710
Trade receivables	21	**55,261,383**	56,559,434
Prepayments and other receivables	22	**25,747,242**	24,128,680
Amount due from an associate	17	**–**	397,677
Amounts due from related parties	23	**2,764,988**	2,651,716
Restricted bank deposits	24	**27,800,000**	8,550,000
Cash and bank balances		**17,582,127**	11,277,587
		180,434,454	141,409,804
Current liabilities			
Trade and bills payables	25	**105,902,418**	39,269,550
Other payables and accruals		**25,684,842**	29,386,521
Government grants received in advance		**2,000,000**	–
Amount due to an associate	17	**3,587,159**	–
Short-term bank borrowings	26	**96,700,000**	104,400,000
Amount due to a related company	23	**1,000,000**	–
Amounts due to ex-shareholders of a subsidiary	7	**31,732,823**	33,402,972
Current portion of finance lease payable	27	**–**	346,816
		266,607,242	206,805,859
Net current liabilitiess		**(86,172,788)**	(65,396,055)
Total assets less current liabilities carried forward		**58,994,002**	72,033,112

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

	Note	2007 RMB	2006 RMB
Total assets less current liabilities brought forward		**58,994,002**	72,033,112
Non-current liabilities			
Finance lease payable	27	**–**	(1,290,878)
Net assets		**58,994,002**	70,742,234
Equity			
Share capital	28	**61,000,000**	61,000,000
Reserves		**(3,969,487)**	7,407,922
Equity attributable to equity shareholders		**57,030,513**	68,407,922
Minority interests		**1,963,489**	2,334,312
Total equity		**58,994,002**	70,742,234

These financial statements were approved and authorised for issue by the board of directors on 27 March 2008

Wang Shuxin
Director

Xie Kehua
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

AT 31 DECEMBER 2007

	Note	2007 RMB	2006 RMB
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	**5,447,777**	6,465,453
Interests in subsidiaries	16	**119,335,866**	173,010,132
Available-for-sale investment	18	**3,000,000**	–
Other receivables	22	**6,119,116**	9,456,816
		133,902,759	188,932,401
Current assets			
Inventories	20	**2,811,711**	3,140,724
Prepayments and other receivables	22	**5,616,485**	6,745,214
Amounts due from related parties	23	**2,764,488**	2,651,216
Restricted bank deposits	24	**20,000,000**	–
Cash and bank balances		**9,587,488**	4,857,835
		40,780,172	17,394,989
Current liabilities			
Trade and bills payables	25	**26,918**	150,353
Other payables and accruals		**5,393,636**	4,689,375
Short-term bank borrowings	26	**76,000,000**	100,000,000
Amounts due to ex-shareholders of a subsidiary	7	**28,324,357**	29,994,505
Current portion of finance lease payable	27	**–**	346,816
		109,744,911	135,181,049
Net current liabilities		**(68,964,739)**	(117,786,060)
Total assets less current liabilities		**64,938,020**	71,146,341
Non-current liabilities			
Finance lease payable	27	**–**	(1,290,878)
Net assets		**64,938,020**	69,855,463

BALANCE SHEET

AT 31 DECEMBER 2007

	Note	**2007** **RMB**	2006 RMB
Equity			
Share capital	28	**61,000,000**	61,000,000
Reserves	29	**3,938,020**	8,855,463
Total equity		**64,938,020**	69,855,463

These financial statements were approved and authorised for issue by the board of directors on 27 March 2008.

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 2007

	Share capital (Note 28) RMB	Share premium RMB	Surplus reserve RMB	Capital reserve RMB	Accumulated losses RMB	Attributable to equity holders of the Company RMB	Minority interests RMB	Total RMB
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 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**
Loss for the year	–	–	–	–	(11,377,409)	(11,377,409)	(370,823)	(11,748,232)
Transfer from/(to) reserves	–	–	788,272	–	(788,272)	–	–	–
Balance as at 31 December 2007	**61,000,000**	**75,089,571**	**788,272**	**2,541,404**	**(82,388,734)**	**57,030,513**	**1,963,489**	**58,994,002**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 RMB	2006 RMB
Operating activities			
Cash generated from operations	30	**70,762,220**	8,752,039
Income tax paid		**(1,076,871)**	–
Interest paid		**(10,342,782)**	(7,470,936)
Net cash generated from operating activities		**59,342,567**	1,281,103
Investing activities			
Investment in a subsidiary		**–**	(500,000)
Disposal of subsidiaries	31	**(3,000,000)**	3,140,360
Capital contribution to an associate		**–**	(18,000,000)
Repayment of amount due from an associate		**–**	22,675,101
Purchase of property, plant and equipment		**(26,614,703)**	(63,132,750)
Payments to acquire lease prepayments		**(1,440,673)**	(3,000,000)
Payments to acquire available-for-sale investment		**(3,000,000)**	–
Repayment to ex-shareholders of a subsidiary		**(1,670,149)**	–
Proceeds from disposal of property, plant and equipment		**9,369,849**	194,958
Increase in restricted bank deposits		**(19,250,000)**	(8,550,000)
Interest received		**267,649**	342,193
Net cash used in investing activities		**(45,338,027)**	(66,830,138)
Financing activities			
Additions of short-term bank borrowings		**121,500,000**	53,900,000
Repayment of short-term bank borrowings		**(129,200,000)**	(1,000,000)
Capital injection by minority shareholders		**–**	7,159,210
Net cash (used in)/generated from financing activities		**(7,700,000)**	60,059,210
Net increase/(decrease) in cash and cash equivalents		**6,304,540**	(5,489,825)
Cash and bank balances at beginning of year		**11,277,587**	16,767,412
Cash and bank balances at end of year		**17,582,127**	11,277,587

The accompanying notes form part of these financial statements.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

1. Corporate information

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 of The Stock Exchange of Hong Kong Limited (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 commercialisation of compound fertilizers products, medical and health products, biomedical equipment and biomaterials. The activities of the subsidiaries are set out in Note 16 below.

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

In the current year, the Group has adopted all of the new and revised 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 ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

However, the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment "Capital Disclosures" have resulted in expanded and additional disclosures in these financial statements regarding the Group's financial instruments and the Group's objectives, policies and processes for managing capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC)-Int 12	Service concession arrangements	1 January 2008
HK(IFRIC)-Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC)-Int 14	HKAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The directors of the Company anticipate that the application of the above standards or interpretations will have no material impact on the financial statements of the Group in the period of their initial application.

HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures in the financial statements.

3. Principal accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, 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 Hong Kong Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of financial statements

(i) The consolidated financial statements have been prepared under the historical cost convention except that certain assets and liabilities are stated at their fair values as explained in the accounting policies below.

(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 RMB82,388,734 and RMB86,172,788 respectively as at 31 December 2007. 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, the ability of the Group to renew or replace the banking facilities as they fall due and to secure additional external funding.

The Group has obtained its principal banker's confirmation that it will extend its banking facilities to the Group of up to RMB200 million beyond the next balance sheet date of 31 December 2008. Drawdowns from this facility will be subject to the bank's normal approval procedures. As at 31 December 2007, about RMB 103.3 million of this facility still remained unused.

In addition, on 12 December 2007 the Company obtained an approval from the China Securities Regulatory Commission for the Company's proposed placing of not more than 374 million H shares.

Based on the above, 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.

Should the going concern basis be inappropriate, 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) Consolidation

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

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.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

3. Principal accounting policies *(continued)*

(c) Consolidation *(continued)*

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

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. 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.

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as 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 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, 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) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

3. Principal accounting policies *(continued)*

(f) Associates *(continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

(g) Goodwill

Goodwill arising on the acquisition of a subsidiary 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 recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit 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 the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(h) 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 or loss 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 of assets, other than properties under construction to their residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings	5% – 20%
Plant and machinery	5% – 20%
Motor vehicles	12.5% – 20%
Furniture, fixtures and equipment	8% – 20%

3. Principal accounting policies *(continued)*

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

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 profit or loss.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at cost less any impairment losses. 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 property, plant and equipment when it is completed and ready for its intended use.

(i) Owner occupied leasehold interest in land

The land and buildings elements of a lease are considered separately for the purposes of lease classifications, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease and is shown in the consolidated and Company balance sheets under property, plant and equipment. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land use rights are classified as lease prepayments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The unamortised lease prepayments for land use rights have been separately shown in the consolidated and Company balance sheets under current and non-current assets.

(j) Research and development costs

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

(k) 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

3. Principal accounting policies *(continued)*

(k) Impairment of assets excluding goodwill *(continued)*

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 to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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.

(l) 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 based on estimated normal selling prices of items sold in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

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.

(m) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

The Group classifies its financial assets into loans and receivables, and available-for-sale investments based on the purpose for which the assets were acquired.

(i) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less provision for any impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a loan or a receivable is uncollectible, it is written off against the allowance account. The amount of provision is recognised when there is objective evidence that the asset is impaired.

3. Principal accounting policies *(continued)*

(m) Financial assets *(continued)*

(ii) Available-for-sale investments

Investments in securities which do not fall into the categories of loans and receivables, held-to-maturity securities or trading securities are classified as available-for-sale investments and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on these investments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale investments denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

(iii) Impairment of financial assets

Objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty;

– default or delinquency in interest or principal payments;

– probability that the borrower will enter bankruptcy or financial re-organisation; or

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, any impairment loss determined and recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

3. Principal accounting policies *(continued)*

(m) Financial assets *(continued)*

(iii) Impairment of financial assets (continued)

Impairment loss is reversed in subsequent periods and recognised in profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment loss was recognised, subject to the restriction that the asset's carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had no impairment loss been recognised in prior years.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

(v) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(n) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

The Group classifies its financial liabilities as other financial liabilities based on the purpose for which the liabilities were incurred.

(iv) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

3. Principal accounting policies *(continued)*

(n) Financial liabilities and equity instrument issued by the Group *(continued)*

(iv) Other financial liabilities (continued)

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3. Principal accounting policies *(continued)*

(r) Taxation

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

(i) Current 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.

(ii) Deferred tax

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 generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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.

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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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.

3. Principal accounting policies *(continued)*

(s) 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 ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group 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 at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

– exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

– exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

– exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Renminbi, using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the 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 foreign currency 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.

3. Principal accounting policies *(continued)*

(t) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) Employees' benefits

(i) Short term benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group pays contributions to defined contribution plans, being publicly administered pension insurance plans on mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Principal accounting policies *(continued)*

(w) 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.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

(i) Revenue from the sale of products is recognised on the transfer of ownership, which generally coincides with the time of shipment. 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 instalment sale receivable at an imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time portion basis that takes into account the imputed rate of interest.

(ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iii) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

(y) 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.

3. Principal accounting policies *(continued)*

(y) Segment reporting *(continued)*

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.

4. Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

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 Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect 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.

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.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/written back in the period in which the estimate has been changed.

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4. Critical accounting estimates and judgements *(continued)*

Estimation uncertainty *(continued)*

Provision for doubtful debts

Provision for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and other receivables and doubtful debt expenses/written back in the period in which the estimate has been changed.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

5. Turnover, revenue and segment information

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

	2007	2006
	RMB	RMB
Sale of goods		
– Medical and health products	**47,372,022**	39,422,718
– Fertilizer products	**280,582,858**	231,216,503
Total turnover	**327,954,880**	270,639,221
Other revenue		
– Technology transfers	**–**	3,000,000
– Government grants	**310,000**	500,000
– Bad debts recovery	**130,149**	786,304
– Over provision written back		
Trade payables	**–**	687,091
Other payables and accruals	**123,435**	1,553,634
– Interest income	**697,649**	342,193
– Others	**529,972**	651,008
	1,791,205	7,520,230
Less: Business tax	**(300,000)**	(933,160)
	1,491,205	6,587,070
Total revenue	**329,446,085**	277,226,291

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5. 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) 2007 segment analysis:

	Medical and health products RMB	Distribution of fertilizer products RMB	Total RMB
Segment revenue	47,372,022	280,582,858	327,954,880
Segment profit	3,389,524	2,345,285	5,734,809
Unallocated income			430,000
Unallocated costs			(5,174,476)
Operating profit			990,333
Finance costs			(10,342,782)
Share of results of an associate	–	(1,318,912)	(1,318,912)
Loss before taxation			(10,671,361)
Taxation			(1,076,871)
Loss for the year			(11,748,232)
Segment assets	61,575,166	251,358,755	312,933,921
Unallocated assets			12,667,323
Total assets			325,601,244
Segment liabilities	10,692,939	144,414,410	155,107,349
Unallocated liabilities			111,499,893
Total liabilities			266,607,242
Impairment losses on receivable (Note 8)	318,265	1,195,861	1,514,126
Capital expenditure (Note 14)	472,117	26,142,586	26,614,703
Depreciation (Note 8)	2,308,788	4,237,689	6,546,477
Loss on disposal of property, plant and equipment (Note 8)	79,628	771,769	851,397

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

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

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

(ii) 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
Excess of interest in the net fair value of assets and liabilities of a subsidiary acquired over cost (Note 7)	–	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	300,772	1,666	302,438
Impairment losses on receivables (Note 8)	1,854,162	2,420,328	4,274,490
Capital expenditure (Note 14)	162,717	62,984,888	63,147,605
Depreciation (Note 8)	2,166,848	3,081,678	5,248,526
Loss on disposal of property, plant and equipment (Note 8)	631,300	–	631,300

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

5. 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.

6. Finance costs

	2007	2006
	RMB	RMB
Interest expense on bank borrowings and other borrowings wholly repayable within five years	**10,342,782**	7,470,936

7. Excess of interest in the net fair value of assets and liabilities of a subsidiary acquired over cost

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.

Effective on 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 30(b)). The amounts remained outstanding at 31 December 2007 and 2006 were RMB31,732,823 and RMB33,402,972 respectively. 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 was RMB3,126,187.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

8. (Loss)/profit before taxation

(Loss)/profit before taxation is stated after crediting and charging the following:

	2007 RMB	2006 RMB
Crediting		
Recovery of bad debts	**67,820**	786,304
Write back of inventory obsolescence and write-off	**38,025**	260,829
Charging		
Amortisation of lease prepayments	**296,838**	76,304
Amortisation of proprietary technologies (included in administrative expenses)	**–**	302,438
Auditor's remuneration	**980,000**	910,000
Impairment losses on		
– Trade receivables	**1,132,175**	3,296,387
– Other receivables	**381,951**	978,103
Cost of inventories sold	**277,315,706**	227,013,769
Depreciation:		
Leased property, plant and equipment	**232,058**	232,058
Owned property, plant and equipment	**6,314,419**	5,016,468
Inventory obsolescence and write-off	**173,974**	176,076
Legal and professional consulting service fees	**401,787**	1,141,381
Loss on disposal of property, plant and equipment, net	**851,397**	631,300
Operating lease rentals – land and buildings	**1,907,163**	670,228
Pension costs	**1,398,889**	1,679,261
Staff costs other than pension costs (including emoluments of Directors and Supervisors)	**19,242,151**	16,595,709

9. Taxation

(a) Enterprise 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 Tianjin Economic and Technological Development Area ("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 it 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 2007 is Alpha's sixth profit-making year, consequently EIT has been provided at 15% (2006: 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 (2006: nil).

Shandong Fulilong Fertilizer Industry Co., Ltd. ("SD Fulilong"), being a FIE incorporated in PRC located in a new and high technology zone, is subject to the statutory 24% EIT and exemption from local income tax. SD Fulilong has not provided for any EIT since it has no taxable income for the year (2006: nil).

Guangdong Fulilong Compound Fertilizers Co., Ltd. ("GD Fuliong"), has been approved as a new and high technology enterprise and is therefore subject to the statutory 15% EIT and exemption from local income tax. GD Fulilong has not provided for any EIT for 2007 since it has no taxable income fo the year.

On 16 March 2007, the National People's Congress approved the PRC Enterprise Income Tax Law, which became effective from 1 January 2008. In accordance with the new law, a unified enterprise income tax rate of 25% will be applied to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to 16 March 2007 eligible for preferential tax treatment in accordance with the currently prevailing tax laws and administrative regulations shall, under the regulations of the State Council, gradually be subject to the new tax rate over a five-year transitional period until 2012. Accordingly, the Company and Alpha can continue to enjoy the preferential tax rates during the transitional period.

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9. Taxation *(continued)*

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

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

	2007	2006
	RMB	RMB
(Loss)/ profit before taxation	**(10,671,361)**	2,565,230
Calculated at statutory rate of 33% (2006: 33%)	**(3,521,549)**	846,525
Income not subject to tax	**–**	(5,930,003)
Expenses not deductible for taxation purposes	**327,126**	–
Tax rate differential	**1,395,692**	(594,733)
Tax losses not recognised	**2,664,387**	6,010,951
Others	**(27,477)**	(6,487)
Under provision in prior year	**238,692**	–
Taxation charge	**1,076,871**	326,253

(b) Deferred taxation

At 31 December 2007, the Group had the following respective estimated unused tax losses, which will expire as follows:

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Year of expiry				
2007	**–**	**–**	6,364,000	6,364,000
2008	**18,544,000**	**18,544,000**	18,544,000	18,544,000
2009	**13,427,000**	**13,427,000**	13,427,000	13,427,000
2010	**5,529,000**	**–**	5,529,000	–
2011	**16,860,000**	**4,177,000**	16,860,000	4,177,000
2012	**14,262,000**	**4,917,000**	–	–
	68,622,000	**41,065,000**	60,724,000	42,512,000

No deferred tax assets have been recognised (2006: nil) as the availability of future taxable profit to utilise the temporary differences is not probable.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

10. (Loss)/profit attributable to equity holders of the Company

The (loss)/profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of a loss of RMB4,917,443 (2006: loss of RMB4,176,516).

11. Dividend

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

12. (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company of RMB11,377,409 (2006: profit of RMB3,034,418), divided by the weighted average number of shares issued during the year of 610,000,000 (2006: 610,000,000) shares.

Diluted (loss)/earnings per share is not presented as there are no (2006: no) dilutive potential shares.

13. 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:

	2007	2006
	RMB	RMB
Fees	**150,000**	85,000
Salaries, housing and other allowances	**970,688**	1,116,754
Discretionary performance bonuses	**45,693**	30,155
Pension	**78,639**	90,206
	1,245,020	1,322,115

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

	2007	2006
	RMB	RMB
Nil – RMB979,000 (2006: RMB1,060,000) (equivalent to Nil – HK$1,000,000)	**13**	15

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

13. 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:

Executive Directors:

	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	RMB	RMB	RMB	RMB
2007				
Mr Wang Shuxin	**–**	**271,447**	**29,047**	**300,494**
Mr Xie Kehua	**–**	**430,770**	**26,427**	**457,197**
Mr Zhang Songhong	**–**	**200,004**	**–**	**200,004**
	–	**902,221**	**55,474**	**957,695**
2006				
Mr Wang Shuxin	–	299,950	25,538	325,488
Mr Xie Kehua	–	213,420	20,961	234,381
Mr Zhang Songhong	–	202,306	–	202,306
Ms Zheng Dan	–	52,773	7,849	60,622
	–	768,449	54,348	822,797

Non-executive directors:

The fees paid to non-executive directors during the year were as follows:

	2007	2006
	RMB	RMB
Mr Feng Enqing	**30,000**	15,000
Mr Xie Guangbei	**30,000**	15,000
Mr Liu Zhenyu (resigned on 31 December 2007)	**30,000**	15,000
	90,000	45,000

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

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

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

Independent non-executive directors:

	Fees	Salaries, allowances and benefits in kind	Total emoluments
	RMB	RMB	RMB
2007			
Professor Xian Guoming	**30,000**	**–**	**30,000**
Mr Guan Tong	**20,000**	**–**	**20,000**
Mr Wu Chen	**10,000**	**–**	**10,000**
	60,000	**–**	**60,000**
2006			
Professor Xian Guoming	15,000	–	15,000
Mr Guan Tong	15,000	–	15,000
Mr Wu Chen	–	–	–
Mr Chan Hip Kai Philip	–	143,842	143,842
	30,000	143,842	173,842

Supervisors:

	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	RMB	RMB	RMB
2007			
Mr Zhao Tingying	**107,492**	**23,165**	**130,657**
Mr Yuan Wei	**–**	**–**	**–**
	107,492	**23,165**	**130,657**
2006			
Mr Yuan Wei	34,043	10,318	44,361
Mr Hao Zhihui	200,576	25,539	226,115
	234,619	35,857	270,476

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

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

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

Independent Supervisors:

	Fees	Salaries, allowances and benefits in kind	Total emoluments
	RMB	RMB	RMB
2007			
Mr Gao Xianbiao	**–**	**–**	**–**
Mr Wang Xiaofa (resigned on 31 December 2007)	**6,668**	**–**	**6,668**
	6,668	**–**	**6,668**
2006			
Mr Wang Xiaofa	–	–	–
Mr Zhu Gang	10,000	–	10,000
	10,000	–	10,000

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2006: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: one) individuals during the year are as follows:

	2007	2006
	RMB	RMB
Salaries, housing and other allowances	**418,934**	229,174

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Nil – RMB979,000 (2006: RMB1,060,000) (equivalent to Nil – HK$1,000,000)	**2**	1

(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 (2006: nil).

None of the Directors and Supervisors waived any emoluments during the year (2006: nil).

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

14. 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 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
Disposals	(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
Reclassification	4,915,201	1,222,157	–	(6,137,358)	–	–
Transfer from construction in progress	26,421,116	24,618,964	–	–	(51,040,080)	–
Transfer to lease prepayments	–	–	–	–	(1,696,994)	(1,696,994)
Additions	9,674,597	6,262,333	267,483	530,744	9,879,546	26,614,703
Disposals	–	(110,000)	(679,434)	(2,150)	(9,945,236)	(10,736,820)
At 31 December 2007	**49,850,819**	**61,643,313**	**6,163,383**	**3,656,824**	**20,304,873**	**141,619,212**
Accumulated depreciation						
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
Written 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
Reclassification	26,378	29,841	79,105	(135,324)	–	–
Charge for the year	1,120,700	4,161,692	881,239	382,846	–	6,546,477
Written back on disposal	–	–	(513,640)	(1,934)	–	(515,574)
At 31 December 2007	**5,634,602**	**23,796,914**	**3,992,038**	**2,190,890**	**–**	**35,614,444**
Net book value						
At 31 December 2007	**44,216,217**	**37,846,399**	**2,171,345**	**1,465,934**	**20,304,873**	**106,004,768**
At 31 December 2006	4,352,381	10,044,478	3,030,000	7,320,286	73,107,637	97,854,782

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 RMB 1.6 million (2006: RMB 1.8 million).

(2) At 31 December 2007, the net book value of property, plant and equipment pledged as security for certain of the Group's banking facilities accounted to RMB 42 million (2006: RMB 1.8 million).

(3) At 31 December 2007, the net book value of property, plant and equipment held by the Group under a finance lease amounted to RMB1.0 million (2006: RMB 1.2 million).

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

Company

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures & equipment	Total
	RMB	RMB	RMB	RMB	RMB
Cost					
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
Additions	–	–	–	44,896	44,896
Disposal	–	–	(42,329)	–	(42,329)
As at 31 December 2007	**2,016,909**	**6,510,626**	**1,392,826**	**1,490,200**	**11,410,561**
Accumulated depreciation					
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
Charge for the year	11,968	680,704	237,354	113,624	1,043,650
Written back on disposal	–	–	(23,407)	–	(23,407)
As at 31 December 2007	**753,278**	**3,152,809**	**956,111**	**1,100,586**	**5,962,784**
Net book value					
At 31 December 2007	**1,263,631**	**3,357,817**	**436,715**	**389,614**	**5,447,777**
At 31 December 2006	1,275,599	4,038,521	692,991	458,342	6,465,453

Note:

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

(2) At 31 December 2007, the net book value of property, plant and equipment held by the Company under a finance lease amounted to RMB 1.0 million (2006: RMB 1.2 million).

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

15. Goodwill

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

	Group	
	2007	2006
	RMB	RMB
At 1 January	**3,133,932**	3,367,001
Disposal of subsidiaries (Note 31)	**–**	(233,069)
At 31 December	**3,133,932**	3,133,932

Impairment of goodwill

The recoverable amount of the goodwill is determined based on the cash generating unit ("CGU") of the Group's manufacture and distribution of diabetic health food and related products to which the goodwill belong on the value in use basis. The calculation is based on the most recent financial budgets approved by management. The following key assumptions have been made for the purpose of analysis:

1 Gross margin ratio of 47% (2006: 47%)
2 Pre tax discount rate of 14.5% (2006: 14.5%) per year
3 Average growth rate of 20% (2006: 20%)

Management determined the gross margin based mainly on past performance of the CGU. The discount rate is determined based on the PRC risk free interest rate adjusted by the specific risk associated with the CGU.

The recoverable amount of the goodwill determined in the above manner suggested that there was no impairment in the value of goodwill as at 31 December 2007.

The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

16. Interests in subsidiaries

	Company	
	2007	2006
	RMB	RMB
Unlisted investments, at cost	**77,029,432**	77,029,432
Amounts due from subsidiaries	**42,306,434**	95,980,700
	119,335,866	173,010,132

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 2007 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** **2007**	2006
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%
Shandong Fulilong Fertilizer Industry 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%**	100%

17. Interests in an associate

	Group 2007 RMB	Group 2006 RMB
Share of net assets	**18,980,641**	20,299,553
Amount due (to)/from an associate	**(3,587,159)**	397,677
	15,393,482	20,697,230

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 2007	Equity interest attributable to the Group 2006
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%

GD Fulilong holds 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.

In 2006, a majority of its products were sold to GD Fulilong via an independent agent (Note 36).

Balance with the associate is unsecured, non-interest bearing and has no fixed repayment terms.

18. Available-for-sale investment

	Group and Company 2007 RMB	Group and Company 2006 RMB
Unlisted equity investment, at cost	**3,000,000**	–

The Company holds 10% of the registered capital of 深圳市諾高生物工程有限公司, a company incorporated in the PRC and is principally engaged in sales and production of medical equipment.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

19. Lease prepayments

	Group 2007 RMB	Group 2006 RMB
Cost		
At 1 January	**3,668,428**	668,428
Transfer from construction in progress	**1,696,994**	–
Additions	**1,440,673**	3,000,000
At 31 December	**6,806,095**	3,668,428
Accumulated amortisation		
At 1 January	**76,304**	–
Charge for the year	**296,838**	76,304
At 31 December	**373,142**	76,304
Net book value at 31 December	**6,432,953**	3,592,124
Portion classified as current assets (included in prepayments and other receivables)	**(320,438)**	(256,209)
Non-current assets	**6,112,515**	3,335,915

The Group's lease prepayments comprise medium term leases of land in the PRC.

At 31 December 2007, lease prepayment pledged as security for certain of the Group's banking facilities amounted to RMB 3.1 million (2006: nil).

20. Inventories

	2007 Group RMB	2007 Company RMB	2006 Group RMB	2006 Company RMB
Raw materials	**28,466,893**	**260,373**	18,030,604	354,106
Work-in-progress	**4,472,161**	**271,528**	1,387,612	19,696
Finished goods	**12,913,842**	**2,335,755**	15,121,433	2,822,867
Packaging materials	**5,673,963**	**25,148**	5,739,313	25,148
	51,526,859	**2,892,804**	40,278,962	3,221,817
Less: Provision for inventory obsolescence	**(248,145)**	**(81,093)**	(2,434,252)	(81,093)
	51,278,714	**2,811,711**	37,844,710	3,140,724

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

20. Inventories *(continued)*

At 31 December 2007, inventories pledged as security for certain of the Group's banking facilities amounted to RMB 19.8 million (2006: nil).

The cost of inventories recognised as an expense includes RMB135,949 (2006: nil) in respect of write-downs of inventory to net realisable value, and has been reduced by RMB2,322,056 (2006: RMB84,753) in respect of the reversal of such write-downs.

21. Trade receivables

	Group	
	2007	2006
	RMB	RMB
Trade receivables	**63,657,290**	65,372,549
Less: Receivable after one year, classified as non-current assets (Note (c))	**(1,815,818)**	(3,348,169)
Trade receivables, current assets	**61,841,472**	62,024,380
Less: Allowance for doubtful debts (Note (d))	**(6,580,089)**	(5,464,946)
	55,261,383	56,559,434

Note:

(a) The Group generally grant credit terms of 120 days to major customers and 90 days to others.

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

	Group	
	2007	2006
	RMB	RMB
Within 3 months	**31,648,804**	27,879,752
Between 3 to 6 months	**12,978,594**	18,233,610
Between 6 to 12 months	**8,393,523**	11,186,317
Over 1 year	**8,820,551**	4,724,701
	61,841,472	62,024,380

(c) Trade receivables, non-current

	Group	
	2007	2006
	RMB	RMB
Instalment sale receivable	**3,547,203**	5,079,554
Less: Current portion	**(1,731,385)**	(1,731,385)
Non-current portion	**1,815,818**	3,348,169

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

21. Trade receivables *(continued)*

(c) *(continued)*

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 2007 RMB	Group 2006 RMB
Within one year	**1,800,000**	1,800,000
In the second year to fifth year, inclusive	**2,000,000**	3,800,000
	3,800,000	5,600,000
Future finance income on instalment sale receivable	**(252,797)**	(520,446)
Present value of instalment sale receivable	**3,547,203**	5,079,554

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

	Group 2007 RMB	Group 2006 RMB
Within one year	**1,731,385**	1,731,385
In the second year to fifth year, inclusive	**1,815,818**	3,348,169
	3,547,203	5,079,554

(d) Allowance for doubtful debts

	Group 2007 RMB	Group 2006 RMB
At 1 January	**5,464,946**	8,590,814
Impairment loss recognised	**1,132,175**	3,296,387
Uncollectible amounts written off	**–**	(5,635,951)
Recovery of bad debts	**(17,032)**	(786,304)
At 31 December	**6,580,089**	5,464,946

22. Prepayments and other receivables

	2007 Group RMB	2007 Company RMB	2006 Group RMB	2006 Company RMB
Other receivables and deposits (note a)	**24,343,362**	**4,906,236**	24,170,830	5,030,347
Prepayments	**3,305,768**	**1,210,579**	2,766,090	1,990,198
	27,649,130	**6,116,815**	26,936,920	7,020,545
Less: Allowance for doubtful debts (note b)	**(1,901,888)**	**(500,330)**	(2,808,241)	(275,331)
	25,747,242	**5,616,485**	24,128,679	6,745,214

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

22. Prepayments and other receivables *(continued)*

(a) Included in other receivables of the Group and the Company at 31 December 2007 is an amount due from an ex-subsidiary totalling RMB9,456,816 (2006: RMB11,137,066), of which RMB3,337,700 and RMB6,119,116 are repayable by 31 December 2008 and 31 December 2009 respectively, (2006: 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 an ex-subsidiary.

(b) **Allowance for doubtful debts**

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
At 1 January	**2,808,241**	**275,331**	1,830,138	–
Impairment loss recognised	**381,951**	**224,999**	978,103	275,331
Uncollectible amounts written off	**(1,237,516)**	**–**	–	–
Recovery of bad debts	**(50,788)**	**–**	–	–
At 31 December	**1,901,888**	**500,330**	2,808,241	275,331

23. Balances with related parties

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Due from ultimate holding company	**2,764,988**	**2,764,988**	2,651,716	2,651,216
Due to a related company	**(1,000,000)**	**–**	–	–
	1,764,988	**2,764,988**	2,651,716	2,651,216

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

24. Restricted bank deposits

The restricted bank deposits were pledged to secure the Group's and Company's credit facilities granted by banks.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

25. 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 and bills payables is as follows:

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
	(Note)			
Within 3 months	**86,860,089**	**–**	14,010,467	–
Between 3 to 6 months	**2,594,970**	**–**	23,995,802	–
6 months to one year	**15,550,740**	**–**	1,209,798	100,000
Over one year	**896,619**	**26,918**	53,483	50,353
	105,902,418	**26,918**	39,269,550	150,353

Note: Included bills payable to an associate of RMB24,000,000 (2006: RMB23,500,000).

26. Short-term bank borrowings

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Short term bank borrowings:				
– secured against inventories, property, plant and equipment (Note (i))	**19,500,000**	**–**	3,500,000	–
– secured against lease prepayments (Note (ii))	**500,000**	**–**	–	–
– unsecured (Note (iii))	**76,700,000**	**76,000,000**	100,900,000	100,000,000
	96,700,000	**76,000,000**	104,400,000	100,000,000

Note:

(i) Secured against inventories, property, plant and equipment with a net book value of about RMB62 million (2006: RMB1.8 million) (Notes 14 and 20).

(ii) Secured against lease prepayments with amount about RMB3.1 million (2006: nil) (Note 19).

(iii) Unsecured loans are guaranteed as follows:

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Guarantees were provided by:				
– the Company (Note 38)	**700,000**	**–**	900,000	–
– Tianjin TEDA Guarantee Co. Ltd.	**76,000,000**	**76,000,000**	100,000,000	100,000,000
	76,700,000	**76,000,000**	100,900,000	100,000,000

(iv) All short-term bank borrowings bore annual interest ranging from 6.1% to 8.9% (2006 : from 5.6% to 7. 6%).

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

27. Finance lease payable

Finance lease liability is repayable as follows:

	Group and Company	
	2007	2006
	RMB	RMB
Within one year	–	346,816
In the second year	–	187,686
In the third year to fifth year inclusive	–	626,585
After the fifth year	–	476,607
Obligation under finance lease not wholly repayable within five years	–	1,637,694
Current portion of finance lease payable	–	(346,816)
Non-current portion of finance lease payable	–	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	
	2007	2006
	RMB	RMB
Total minimum lease payments		
Within one year	–	489,230
In the second year	–	244,615
In the third year to fifth year inclusive	–	733,844
After the fifth year	–	489,230
	–	1,956,919
Less : Interest portion of finance lease	–	(319,225)
Present value of finance lease obligation	–	1,637,694

28. Share capital

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

	2007		2006	
	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 nondistributable. 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 (2006: nil). At 31 December 2007, 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 (2006: nil).

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

29. Reserves

	Share premium	Capital reserve	Accumulated losses	Total
	RMB	RMB	RMB	RMB
The Company				
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
Net loss for the year	–	–	(4,917,443)	(4,917,443)
At 31 December 2007	**75,089,571**	**(2,312,483)**	**(68,839,068)**	**3,938,020**

30. Notes to consolidated cash flow statement

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

	2007	2006
	RMB	RMB
(Loss)/profit before taxation	**(10,671,361)**	2,565,230
Depreciation	**6,546,477**	5,248,526
Loss on disposal of property, plant and equipment	**851,397**	631,300
Share of results of an associate	**1,318,912**	(163,849)
Excess of interest in the net fair value of assets and liabilities of a subsidiary acquired over cost	**–**	(3,126,187)
Gain on disposal of subsidiaries	**–**	(6,869,968)
Interest expense	**10,342,782**	7,470,936
Interest income	**(697,649)**	(342,193)
Amortisation of proprietary technologies	**–**	302,438
Amortisation of lease prepayments	**296,838**	76,304
Operating cash flows before working capital changes	**7,987,396**	5,792,537
Increase in inventories	**(13,434,003)**	(9,978,200)
Decrease in trade receivables	**1,298,051**	4,733,594
Decrease/(increase) in prepayments and other receivables	**5,213,367**	(7,719,126)
Increase in amounts due from ex-subsidiaries	**–**	(10,986)
Decrease in amounts due from/to related parties	**(113,272)**	(5,792,949)
Decrease in non-current trade receivables	**1,532,351**	2,313,859
Increase in trade and bills payables	**66,632,868**	18,651,957
(Decrease)/increase in other payables and accruals	**(5,339,374)**	962,738
Increase in government grants received in advance	**2,000,000**	–
Increase/(decrease) in amount due to an associate	**3,984,836**	(397,677)
Increase in amount due to a related party	**1,000,000**	196,292
Cash generated from operations	**70,762,220**	8,752,039

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

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

(b) Acquisition of additional equity interest in GD Fulilong (Note 7)

	2006 RMB
Share of net assets acquired	36,529,159
Excess of interest in the net fair value of assets and liabilities of a subsidiary acquired over cost (Note 7)	(3,126,187)
Satisfied by consideration payable	33,402,972
Net cash outflow	–

31. Disposal of subsidiaries

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 (深圳市永投資顧問有限公司), an independent third party, at a cash consideration of RMB3 million.

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

	2006 RMB
Investment in a fellow subsidiary	500,000
Property, plant and equipment	705,193
Proprietary technologies	1,090,997
Inventories	3,281,027
Trade receivables, prepayments and other receivables	3,832,926
Cash and bank balances	359,640
Trade payables, other payables and accruals	(13,872,820)
	(4,103,037)
Goodwill	233,069
Minority interest	–
	(3,869,968)
Gain on disposal of subsidiaries	6,869,968
Satisfied by cash	3,000,000
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 subsidiary	(359,640)
Cash consideration receivable	3,000,000

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 UNLESS STATED OTHERWISE)

32. Commitments

(a) Capital commitments

At 31 December 2007, the Group and the Company had the following significant capital commitments:

	Group and Company	
	2007	2006
	RMB	RMB
Authorised and contracted for		
– Acquisition of plant and machinery	**17,738,307**	18,923,851

(b) Operating lease commitments

At 31 December 2007, the Group and the Company had the following operating lease commitments:

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

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**461,373**	**–**	534,814	63,441
Later than one year and not later than five years	**1,872,011**	**–**	1,860,706	–
Over five years	**7,710,389**	**–**	8,585,939	–
Total future lease payments	**10,043,773**	**–**	10,981,459	63,441

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

33. Capital risk management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debts as total debt (which includes finance lease payable, interest-bearing loans and borrowings, amount due to a related company, amount due to an associate and amounts due to ex-shareholders of a subsidiary), less cash and cash equivalents. Adjusted capital comprises all components of equity.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 December 2006 and 2007 was as follows:

	Group	
	2007	2006
	RMB	RMB
Amount due to an associate	**3,587,159**	–
Short-term bank borrowings	**96,700,000**	104,400,000
Amount due to a related company	**1,000,000**	–
Amounts due to ex-shareholders of a subsidiary	**31,732,823**	33,402,972
Finance lease payable	**–**	1,637,694
Total debts	**133,019,982**	139,440,666
Add:Proposed dividends	**–**	–
Less:Cash and cash equivalents	**17,582,127**	11,277,587
Net debt	**115,437,855**	128,163,079
Total equity	**58,994,002**	70,742,234
Net debt-to-adjusted equity ratio	**196%**	181%

34. Financial risk management

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's and Company's business.

The main risks arising from the Groups' and Company's financial instruments in the normal course of the Group's and Company's business are credit risk, liquidity risk and interest rate risk.

These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's and Company's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on any ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customers' past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade receivables. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 7% (2006: 7%) and 24% (2006: 27%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in Notes 21 and 22 respectively.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

34. Financial risk management *(continued)*

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The Group	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB	RMB	RMB	RMB	RMB	RMB
2007						
Short-term bank borrowings	96,700,000	98,065,215	98,065,215	–	–	–
Trade and bills payables	105,902,418	105,902,418	105,902,418	–	–	–
Other payables and accruals	25,684,842	25,684,842	25,684,842	–	–	–
Amount due to an associate	3,587,159	3,587,159	3,587,159	–	–	–
Amount due to a related company	1,000,000	1,000,000	1,000,000	–	–	–
Amounts due to ex-shareholders of a subsidiary	31,732,823	31,732,823	31,732,823	–	–	–
	264,607,242	265,972,457	265,972,457	–	–	–
2006						
Short-term bank borrowings	104,400,000	105,939,476	105,939,476	–	–	–
Obligation under finance lease	1,637,694	1,956,919	489,230	244,615	733,844	489,230
Trade and bills payables	39,269,550	39,269,550	39,269,550	–	–	–
Other payables and accruals	29,386,521	29,386,521	29,386,521	–	–	–
Amounts due to ex-shareholders of a subsidiary	33,402,972	33,402,972	33,402,972	–	–	–
	208,096,737	209,955,438	208,487,749	244,615	733,844	489,230

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

34. Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The Company	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	RMB	RMB	RMB	RMB	RMB	RMB
2007						
Short-term bank borrowings	76,000,000	76,946,227	76,946,227	–	–	–
Trade and bills payables	26,918	26,918	26,918	–	–	–
Other payables and accruals	5,393,636	5,393,636	5,393,636	–	–	–
Amounts due to ex-shareholders of a subsidiary	28,324,357	28,324,357	28,324,357	–	–	–
	109,744,911	110,691,138	110,691,138	–	–	–
2006						
Short-term bank borrowings	100,000,000	101,465,291	101,465,291	–	–	–
Obligation under finance lease	1,637,694	1,956,919	489,230	244,615	733,844	489,230
Trade and bills payables	150,353	150,353	150,353	–	–	–
Other payables and accruals	4,689,375	4,689,375	4,689,375	–	–	–
Amounts due to ex-shareholders of a subsidiary	29,994,505	29,994,505	29,994,505	–	–	–
	136,471,927	138,256,443	136,788,754	244,615	733,844	489,230

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

34. Financial risk management *(continued)*

(c) Interest rate risk

The Group's interest rate risk arises primarily from short-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively. The Group's interest rate profile as monitored by management is set out below.

The Group's fair value interest-rate risk mainly arises from borrowings as disclosed in note 26. Borrowings were issued at fixed rates which expose the Group to fair value interest-rate risk. The Group has no cash flow interest-rate risk as there are no borrowings which bear floating interest rates. The Group has not used any financial instruments to hedge potential fluctuations in interest rates.

The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.

	Group			
	2007		2006	
	Effective interest rate		Effective interest rate	
	%	**RMB**	%	RMB
Net fixed rate borrowings				
Bank borrowings	**6.58%**	**96,700,000**	5.70%	104,400,000

	Company			
	2007		2006	
	Effective interest rate		Effective interest rate	
	%	**RMB**	%	RMB
Net fixed rate borrowings				
Bank borrowings	**6.29%**	**76,000,000**	5.70%	100,000,000

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after taxation and accumulated losses by approximately RMB983,000 (2006: RMB1,060,000). Other components of consolidated equity would decrease/increase by approximately RMB983,000 (2006: RMB1,060,000) in response to such general increase/decrease in interest rates.

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

34. Financial risk management *(continued)*

(c) Interest rate risk *(continued)*

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Currency risk

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

(e) Price risk

The Group is not exposed to any equity securities risk or commodity price risk.

(f) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006, except for the amounts due from subsidiaries which are unsecured, non-interest bearing and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.

(g) Fair values estimation

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.

35. Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007		2006	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Financial assets				
Loans and receivables (including cash and bank balances)	**136,770,236**	**44,087,577**	116,113,870	23,711,081
Available-for-sale financial assets	**3,000,000**	**3,000,000**	–	–
	139,770,236	**47,087,577**	116,113,870	23,711,081
Financial liabilities				
Financial liabilities measured at amortised cost	**264,607,242**	**109,744,911**	206,459,043	134,834,233

(EXPRESSED IN RENMINBI UNLESS STATED OTHERWISE)

36. Material related party transactions

Transactions between Company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note.

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

	2007	2006
	RMB	RMB
Purchases of inventories from an associate via an independent agent	**–**	37,625,484

37. 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.

38. Contingent liabilities

The Company guaranteed the banking facilities granted to certain of its subsidiaries amounting to RMB0.7 million (2006: RMB0.9 million).

As at 31 December 2007, all (2006: all) the above banking facilities granted were utilized.

39. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2008.

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") on Monday, 19 May 2008 at 9:30 a.m. to consider, if thought fit, passing the following resolutions as ordinary resolutions:

1. To consider and, if thought fit, approve the report of the directors' of the Company for 2007;

2. To consider and, if thought fit, approve the report of the Supervisory Committee of the Company for 2007;

3. To consider and, if thought fit, approve the audited consolidated accounts of the Company for the year ended 31 December 2007;

4. To consider and, if thought fit, approve the proposal of appointing Shu Lun Pan Horwath Hong Kong CPA Limited as auditors of the Company for 2008 and authorize the Directors of the Company to fix their remuneration; and

5. To transact any other business.

By order of the Board
Wang Shuxin
Chairman

Tianjin, China
27 March 2008

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 the holder of the H Shares of the Company 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 24 hours before the time for holding the meeting or 24 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 of the Company 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 24 hours before the time for holding the meeting or 24 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. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. The register of the shareholders of the Company will be closed from 19 April 2008 to 19 May 2008 (both days inclusive), during which no transfer of shares of the Company will be registered. As regards holders of H Shares of the Company and in order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar not later than 18 April 2008 at 4:00 p.m. for registration.

6. Shareholders of the Company who intend to attend the meeting mentioned above should complete and deliver the reply slip for attendance to the Company's Share Registrar or the registered address of the Company by hand, post or fax not later than 28 April 2008.

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 PRC
Fax No.: (8622) 59816909