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天津泰达生物醫學工程股份有限公司
Tianjin TEDA Biomedical Engineering Company Limited

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Third Quarterly Report 2002

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

HIGHLIGHTS

- Turnover increased by 7.6% over the corresponding period last year to approximately RMB21,864,592 for the nine months ended 30 September 2002.
- Gross profit grew by approximately 15% to RMB11,452,310.
- The main reason for the increase in sales turnover is the sales surge in sugar-free mooncake.
- Gross profit margin improved from 49% to 52%.
- Loss attributable to shareholders was RMB5,835,849, a 56% increase from the corresponding period last year.

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited quarterly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the three months and the nine months ended 30 September 2002, together with the comparative figures of the corresponding period in 2001 as follows:

	<i>Notes</i>	For the		For the	
		three months		nine months	
		ended 30 September		ended 30 September	
		2002	2001	2002	2001
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	2	10,456,793	8,451,759	21,864,592	20,322,883
Less: sales tax		(23,938)	(11,829)	(37,957)	(42,653)
Cost of sales		(4,934,852)	(4,328,526)	(10,374,325)	(10,314,352)
Gross profit		5,498,003	4,111,404	11,452,310	9,965,878
Selling and distribution costs		(3,267,363)	(2,027,271)	(7,584,836)	(5,954,295)
R&D and administrative expenses		(4,856,986)	(2,677,614)	(9,555,094)	(7,013,921)
Operating profit/(loss)		(2,626,346)	(593,481)	(5,687,620)	(3,002,338)
Other income		244,557	61,938	939,935	131,818
Amortization on goodwill		(42,624)	(57,755)	(159,416)	(173,266)
Finance expense	3	(330,048)	(141,616)	(1,018,628)	(417,422)
Profit/(loss) before tax		(2,754,461)	(730,914)	(5,925,729)	(3,461,208)
Taxation	4	—	—	—	—
Profit/(loss)		(2,754,461)	(730,914)	(5,925,729)	(3,461,208)
Minority interests		44,923	(263,622)	89,880	(274,437)
Net loss attributable to the Group		(2,709,538)	(994,536)	(5,835,849)	(3,735,645)
Earnings per share	5	(0.677)cents	(0.332)cents	(1.724)cents	(1.245)cents

Notes:

1. Basis of presentation

The principal accounting policies adopted in preparing the unaudited quarterly results are under historical cost convention and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2001.

2. Turnover

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

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

	For the three months ended 30 September 2002		For the nine months ended 30 September 2001	
Turnover:				
Diabetic health products	9,785,760	6,551,331	20,193,698	15,669,973
Other medical & health products	671,033	1,900,428	1,670,894	4,652,910

3. Finance expense

	For the three months ended 30 September 2002		For the nine months ended 30 September 2001	
Interest expense on bank loans repayable within 5 years	330,048	141,616	1,018,628	417,422

4. Taxation

The Company and its subsidiaries had no taxable profits for the period ended 30 September 2002 and therefore no Enterprise Income Tax provision was made.

5. Earnings per share

For the three months and the nine months ended 30 September 2002, the calculation of earnings per share is based on the unaudited loss attributable to shareholders of the Company of RMB2,709,538 and RMB5,835,849 respectively (for the three months and nine months ended 30 September 2001, the loss attributable to shareholders of the Company was RMB994,536 and RMB3,735,645 respectively) divided by the weighted average number of shares issued during the respective period. For the three months and the nine months ended 30 September 2002, the weighted average number of shares in issue is 400,000,000 and 338,461,540 respectively (for the three months and the nine months ended 30 September 2001, the weighted average number of shares in issue was 300,000,000 and 300,000,000 respectively). There was no diluted earnings per share as there were no dilutive potential ordinary shares outstanding during the period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: NIL).

MOVEMENT OF RESERVES

	For the nine months ended			
	30 September			
	Capital reserve		Accumulated losses	
	2002	2001	2002	2001
	RMB	RMB	RMB	RMB
Balances as of 1 January	3,081,404	3,081,404	(19,793,454)	(9,937,118)
Net loss for the three months ended 31 March	—	—	(1,912,998)	(441,002)
Balances as of 31 March	3,081,404	3,081,404	(21,706,452)	(10,378,120)
Net loss for the three months ended 30 June	—	—	(1,213,313)	(2,300,107)
Increase/(decrease) in capital reserve	62,418,175	—	—	—
Balances as of 30 June	65,499,579	3,081,404	(22,919,765)	(12,678,227)
Net loss for the three months ended 30 September	—	—	(2,709,538)	(994,536)
Increase/(decrease) in capital reserve	(404,455)	—	—	—
Balances as of 30 September	<u>65,095,124</u>	<u>3,081,404</u>	<u>(25,629,303)</u>	<u>(13,672,763)</u>

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

The Group is principally engaged in the research and development and subsequent commercialization of medical and health products in the field of biomedical engineering.

The People's Republic of China (the "PRC") is the most populated nation in the world, the demand for medical and health products is huge. Coupled with the growing economic development, people are paying more attention to their health with rising living standard. It is believed that the demand for medical and health products in the PRC will be increased substantially in future.

Being one of the pioneers in the field of biomedical engineering in the PRC, the Company is able to become one of the few companies which are able to put research and development ("R&D") results into commercial products through its R&D and effective marketing strategies.

During the nine months ended 30 September 2002, the sales turnover of the Group was RMB21,864,592, an increase of approximately 7.6% as compared to that of the corresponding period in 2001. This was mainly due to the increase in sales of 'Alpha' sugar-free mooncake before and during the Mid-Autumn festival in August and September 2002.

For the period under review, approximately 92% and 8% of total turnover are derived from the sales of diabetic health food products and other medical and health products, which were sold under the "Alpha" and the "TEDA" brandnames, respectively. 'Alpha' products continued to be a stable and growing revenue driver. Net loss attributable to shareholders of the Company during the period was approximately RMB5,835,000. Compared to nine months ended 30 September 2001, the loss attributable to shareholders of the Company was increased by 56% due to increase in selling and distribution expenses together with increase in R&D and administrative expenses in the period concerned as compared to last year.

During the third quarter of 2002, the Company submitted applications for inspection results of the products of urethral packages, dialysis filters and other blood filtering products to Tianjin City Drugs Administration Bureau of the PRC. These products are expected to commence commercialization from year 2003 onwards.

Medical Monitoring Equipment:

During the period under review, the Group continued paying its efforts in developing medical monitoring equipment. This involved the set up of a joint venture of Beijing TEDAX² Medical Engineering Company Limited (“TEDAX²”) in which the Company owned 60% equity interests. TEDAX² is engaged in the production and sale of medical equipments such as sleeping status monitoring equipments and SRM-Angel-110 multi-parameter medical monitors. It is expected that there will be new products launched by the end of 2002, namely the modified version of 9602 sleeping status monitoring equipment and the modified version of SRM-Angel-110 multi-parameter medical monitor.

As disclosed in the prospectus (the “Prospectus”) of the Company dated 10 June 2002, the Group intended to form a joint venture with China Xinxing Medical and Pharmaceutical Technology Development Corporation (“China Xinxing”) for the production and sale of medical monitoring equipment. Subsequently, China Xinxing decided to abandon this business line and therefore the Group invested in 60% of equity interest in TEDAX² instead by the injection of RMB8.4 million. The other shareholders of TEDAX² are independent third parties. TEDAX² then acquired the subsidiary of China Xinxing which is engaged in production and sale of medical monitoring equipment. It has been disclosed in the Prospectus that RMB5 million would be applied towards the joint venture with China Xinxing. As a result of the change in plan, the RMB5 million has been applied in the Group’s investment in TEDAX². The remaining RMB3.4 million was financed from internal resources of the Group.

The Group will continue to cooperate with renowned manufacturers to minimize product lead time, enhance production efficiency and reduce fixed costs investment. During the period under review, the Company commenced trial production of nasal tubes (for single usage), body fluid gathering bags (for single usage) and various catheters.

“Alpha” Health Products

“Alpha” has successfully become a well-known brandname of diabetic health food in the PRC. Products for sale include biscuits, noodles, oatmeal, tea, drinks and sugar-free mooncakes. The distribution network has spread throughout the PRC.

During the three months ended 30 September 2002, contribution of “Alpha” products to total turnover amounted to RMB9,785,760, an increase of 49% over the corresponding period in 2001. The increase was mainly contributed by the surge of sales in sugar-free mooncakes during the period. Totally, the sales of sugar-free mooncakes amounted to approximately RMB5,223,000 in 2002, which represented an increase of 99% as compared with RMB2,625,000 sold in last year.

The territories of Southern and South-western parts of the PRC have recorded an increase of over 120% of territorial sales of sugar-free mooncakes in 2002 as compared to last year. Other territories which include Eastern and North-eastern parts of the PRC have recorded an increase of nearly 100% in 2002 as compared to last year.

Regarding new product launch, it is expected that sugar reducing milk powder will be launched in the market by the end of 2002 after obtaining the approval certificate for health food issued by Ministry of Health.

Sales and Marketing

Regarding the biomedical equipment, the Group has started the recruitment of experienced sales representatives as well as regional sales managers. The current target of recruitment is approximately 15 to 20 persons. The Group continued to enhance its direct sales force through various training programmes and helping hospitals to set up treatment centers.

Regarding diabetic health products, the Group has commenced the re-engineering project for Alpha’s sales channels. This included the reduction of number of traditional sales distributors and the increase in sales channels such as through mega-supermarkets. On the other hand, relying on the success of the sales of sugar-free mooncakes, Alpha’s products could be able to penetrate into the market of those customers who are not diabetic but like sugar-free health products.

For the period under review, the Group’s sales and marketing expenses amounted to RMB7,584,836, accounting for approximately 35% of turnover.

Future Prospects

Leveraging on the future unprecedented growth of biomedical engineering in the PRC, the Company is well poised to capture the enormous market with the support from the government of Tianjin Economic and Technological Area (“TEDA”), strengths in R&D and additional resources from successful listing.

Being one of the pioneers in R&D of medical and health products in the field of biomedical engineering, the Company will continue to pay great efforts in developing new biomedical products which are suitable for the PRC market. With regard to medical equipment, our major products such as sleeping status monitoring equipments and SRM-Angel-110 multi-parameter medical monitor will cover most of the provincial hospitals, while the Group shall also engage in the selling of high-ranked imported medical equipment to triple A hospitals throughout the PRC. Under such circumstances, the multi-functional sales channel will be established.

In conjunction with the recruitment of approximately 15 to 20 sales personnel in biomedical equipment, TEDAX² will also recruit approximately 14 to 15 sales personnel and thus the sales force of the Group other than diabetic health products will be increased to over 30 people, covering six territories throughout the PRC, namely Northeastern, Northern, Eastern, Central, Southwestern and Southern parts of the PRC.

The management deeply believes that through the set up of modernized management system coupled with strict sales target management, the Group shall achieve a better result in the year to come and eventually brings the fruitful returns to all our shareholders.

SUBSTANTIAL SHAREHOLDERS

As of 30 September 2002, holder of the Company’s domestic shares representing 10% or more of the Company’s total issued capital was:

Name of shareholders	Number of shares	Percentage
TTII	255,000,000	63.75%

As of 30 September 2002, holder of the Company’s H shares representing 10% or more of the Company’s total issued capital was:

Name of shareholders	Number of shares	Percentage
HKSCC Nominees Limited	99,995,000	24.99%

Save as disclosed above, the Company is not aware of any interests required to be disclosed by the Company pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance (the “SDI Ordinance”) as of 30 September 2002.

DIRECTORS' AND SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS IN SHARES

As of 30 September 2002, the interests of the Directors of the Company and their respective associates in the Company and its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance, or required pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

	Number of shares held and nature of interests				Total
	Personal (note)	Family	Corporate	Other	
Directors					
Professor Gu Harqing	14,000,000	—	—	—	14,000,000
Mr. Xie Kehua	9,000,000	—	—	—	9,000,000

Note: All represented domestic shares

Save as disclosed above, none of the directors or supervisors or senior management of the Company or their associates had any personal, family, corporate or other interests in any securities in the Company and its associated corporations.

None of the directors or the supervisors or senior management of the Company, nor their spouses or children under the age of 18 were granted or had exercised any rights to subscribe for the securities in the Company during the nine months ended 30 September 2002 for its provision of services.

INTEREST OF THE SPONSOR

According to the notification from our sponsor, CSC Asia Limited, as of 30 September 2002, CSC International Holdings Limited, an affiliated company of CSC Asia Limited, held 14,940,000 shares, representing approximately 3.735% of interests in the share of the Company.

By a sponsor's agreement entered into between the Company and CSC Asia Limited pursuant to which CSC Asia Limited has been appointed as sponsor of the Company for the remainder of the year ended 31 December 2002 and for the period of two years commencing from 1 January 2003 and the Company shall pay an agreed fee to CSC Asia Limited for its provision of services.

CONTINGENT LIABILITIES

As at 30 September 2002, the Company had contingent liabilities amounting to RMB1,700,000 in connection with the provision of guarantee as security for bank loans of RMB1,700,000 granted to a wholly owned subsidiary of TEDAX², the name of which is Beijing Xinxing Biomedical Engineering Research & Development Centre.

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) with written terms of reference in compliance with the requirements as set out in Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the Committee are to review and monitor the Company’s financial reporting process and internal control system. The Committee comprises two independent non-executive directors, Mr. Zhan Ping and Mr. Xan Guoming and Mr. Hao Zhihui, who is a supervisor of the Company.

The Committee has reviewed the third quarterly results and the third quarterly report for the nine months ended 30 September 2002. Before that, one meeting was held by the Committee for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited half-yearly report for the six months ended 30 June 2002.

SHARE OPTION SCHEME

During the period ended 30 September 2002, none of the directors or supervisors or employees or other participants of the share option scheme was granted with options to subscribe for the H shares of the Company. As at 30 September 2002, none of the directors or supervisors or employees or other participants of the share option scheme had any rights to acquire the H shares in the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2002, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company’s listed shares.

PRACTICES AND PROCEDURES OF THE BOARD

For the nine months ended 30 September 2002, the Group has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures.

By Order of the Board
Wang Shu Xin
Chairman

Tianjin, PRC, 12 November 2002