



Tianjin TEDA Biomedical Engineering Company Limited

天津泰達生物醫學工程股份有限公司

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

PAVING THE WAY FOR

HEALTH

ANNUAL REPORT 2002

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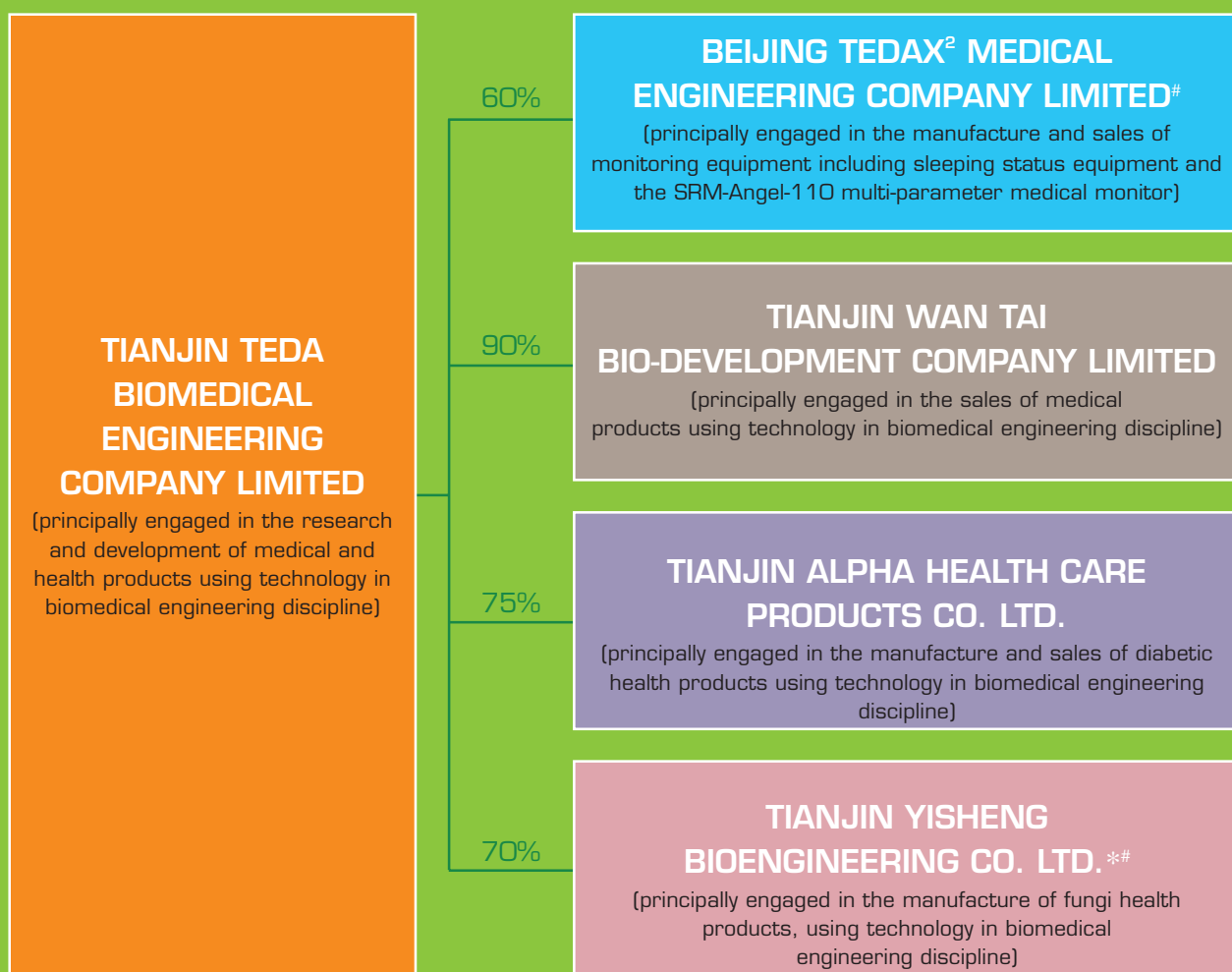
ABOUT TEDA BIOMEDICAL

MISSION

To bring health and wealth to the human race through unrelenting commitment to the research and development and commercialization of medical and health products using technology of biomedical engineering.

GROUP

STRUCTURE



* A new joint venture subsidiary established on 17 February 2003

[#] For identification purposes only

COMPANY

BACKGROUND

Tianjin TEDA Biomedical Engineering Company Limited (“TEDA Biomedical” or the “Company” and together with its subsidiaries, collectively the “Group”) is a powerhouse in the research and development of medical and health products using technology in biomedical engineering discipline with full support from the management committee of Tianjin Economic-Technological Development Area (“TEDA”) and Tianjin Municipal People’s Government. TEDA Biomedical is principally engaged in the research and development and commercialization of medical and health products including biomedical equipment, biomaterials and natural pharmaceuticals and diabetic health products.

BIOMEDICAL EQUIPMENT AND BIOMATERIALS

A diversified product range including medical equipment such as medical monitoring systems, plasma separators and hemodialysis filters and biomaterials such as surface modified intraocular lens, sodium hyaluronate, urinal catheters, nasal tubes, catheters and body fluid gathering bags.

NATURAL PHARMACEUTICALS AND DIABETIC HEALTH PRODUCTS

Products include Curcumin and various diabetic health foods. Curcumin is an effective medicine for curing Hepatitis B. The product is currently under development. Diabetic health products of the Group include specifically designed sugar reducing health foods which are sold under the brand of “Alpha” and have already been launched in the market. “Alpha” offers series of products including noodles, flour, biscuits, etc.

EXECUTIVE DIRECTORS

Wang Shuxin
He Ning
Xie Kehua
Professor Gu Hanqing
Zheng Dan

NON-EXECUTIVE DIRECTORS

Feng Enqing
Li Qingyu
Professor Du Zhi
Professor Sun Zhiyuan

INDEPENDENT NON- EXECUTIVE DIRECTORS

Professor Xan Guoming
Professor Xiao Zhuoji

SUPERVISORS

Hao Zhihui
Yuan Wei
Chang Zheng

INDEPENDENT SUPERVISORS

Xie Guangbei
Zhu Gang

COMPANY SECRETARY

Yip Pak Shing, Edmund, A.H.K.S.A.

QUALIFIED ACCOUNTANT

Yip Pak Shing, Edmund, A.H.K.S.A.

COMPLIANCE OFFICER

Zheng Dan

AUDIT COMMITTEE

Professor Xiao Zhuoji
Professor Xan Guoming
Hao Zhihui

AUTHORIZED REPRESENTATIVES

Wang Shuxin
Zheng Dan

REGISTERED OFFICE

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

AUDITORS

PricewaterhouseCoopers

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

9th Floor, Block A2
Tianda Hi-Tech Park
No. 80, The 4th Avenue
TEDA
Tianjin, PRC

HONG KONG REPRESENTATIVE OFFICE

Unit 11A, 31st Floor
Tower 2, Lippo Centre
89 Queensway
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY WEBSITE

www.bioteda.com.cn

STOCK CODE

8189

FINANCIAL HIGHLIGHTS

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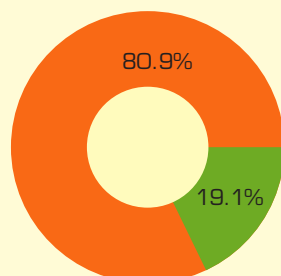
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	For the year ended 31 December		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
RESULTS			
Turnover	30,431	25,526	16,884
Gross profit	14,785	12,131	8,314
Gross margin	48.6%	47.5%	49.2%
Loss attributable to shareholders	(13,849)	(9,856)	(8,579)
Loss per share	(3.96) cents	(3.29) cents	(2.86) cents

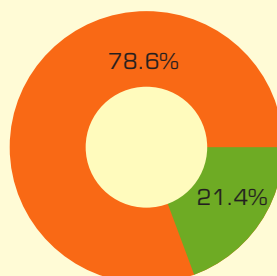
	As at 31 December		
	2002 RMB'000	2001 RMB'000	2000 RMB'000
ASSETS & LIABILITIES			
Total assets	117,051	43,512	37,021
Total liabilities	46,120	30,224	13,877
Shareholders' equity	70,931	13,288	23,144

TURNOVER BREAKDOWN

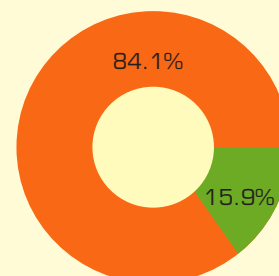
2002



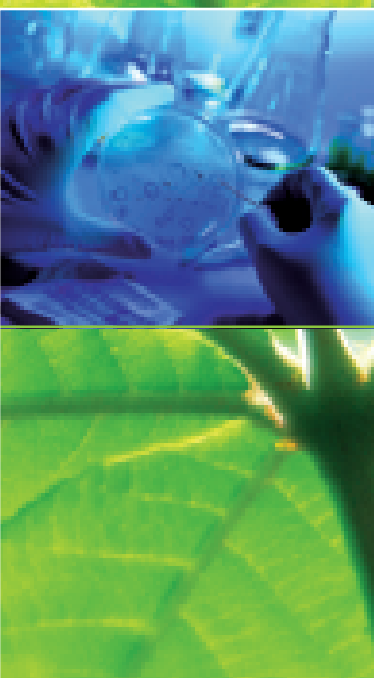
2001



2000



- Biomedical equipment and biomaterials
- Natural pharmaceuticals and diabetic health products



FOUNDATION



A MARKET-ORIENTED
BIOMEDICAL ENGINEERING
GROUP WITH SOLID AND STURDY
BUSINESS FOUNDATION



WITH SUCCESSFUL
ENTRANCE INTO
INTERNATIONAL FINANCIAL
MARKET, YEAR 2002 WAS
A VERY MEANINGFUL YEAR
TO TEDA BIOMEDICAL.



SUCCESS

CHAIRMAN'S STATEMENT

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Dear shareholders,

On behalf of the Board of Directors (the "Board") of the Company, I am pleased to present the annual report of TEDA Biomedical for the year ended 31 December 2002.

Year 2002 was a very meaningful year to TEDA Biomedical whose H shares were successfully listed on GEM on 18 June 2002. A total amount of net proceeds of approximately HK\$70 million was raised through the Placing of its H shares. The Group has successfully entered into international financial market. In line with the plans as set out during listing, the Group has speeded up its product commercialization and committed to developing its sales network. As a result, the Group was able to witness an increase in sales turnover and cemented its profitability.

FINANCIAL HIGHLIGHTS

During financial year 2002, turnover amounted to approximately RMB30.43 million, representing an increase of over 19% from the corresponding period in 2001, gross profit also climbed by 22% to reach approximately RMB14.79 million. During the year under review, TEDA Biomedical abided by its stringent cost control measures. In addition to the vast expansion of its sales team, market network and research and development, the Group also successfully laid a solid foundation for future growth.

During the year under review, loss attributable to shareholders increased by about 41% from RMB9.86 million in 2001 to approximately RMB13.85 million in 2002. The increase were mainly brought by the provisions for the amortisation of goodwill of Beijing TEDAX² Medical Engineering Company Limited ("TEDAX²") and its impairment loss of inventory, the expansion of the sales team of Tianjin Wan Tai Bio-development Company Limited ("Wan Tai"), foundation works for exploring market and sales channels, and expenses on research and development, while other expenses were under reasonable control.

BUSINESS REVIEW

During the year under review, not only did the Group realize its listing goal, but also it committed to establish a solid foundation for its business development. On one hand, the Company continued to cooperate with renowned research and development institutions and manufacturers to accelerate the pace of product commercialization, among which, the trial production of single usage nasal tubes and body fluid gathering bags and various types of catheters have already commenced after obtaining the approval from Tianjin City Drugs Administration Bureau, these products will commence commercialization in the foreseeable future.

The establishment of the Group's joint venture subsidiary - TEDAX² was completed in August 2002. TEDAX², principally engaged in the manufacture and sales of monitoring equipment including sleeping status equipment and the SRM-Angel-110 multi-parameter medical monitor, is aiming to become the Group's major driving force in the monitoring equipment market.

In the health product business, the Group has already launched a total of 10 types of "Alpha" diabetic health food products and became one of the renowned brand names of diabetic health food products in the PRC. During the year under review, turnover of "Alpha" products achieved more than RMB24 million, and among which, sales of sugar-free mooncakes increased by two-folds. The sugar-reducing milk powder obtained the approval certificate of health food and was launched in March 2003.

FUTURE STRATEGIES

2003 will be a year of aggressive promotions, market development and profit exploration for the Company. In the year under review, the Company has dedicated to becoming a market-oriented biomedical engineering group that develops, manufactures, distributes and sells a wide range of natural pharmaceuticals, health products and biomedical equipment.

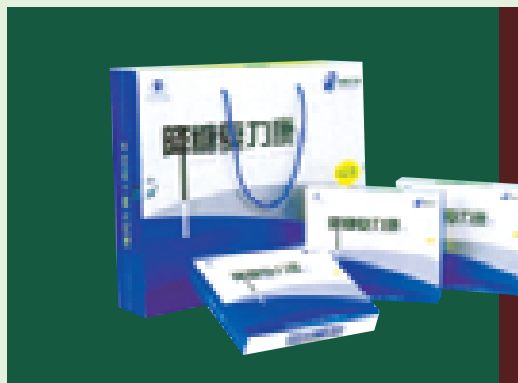
TEDAX² will continue to expand the mid-end product market by providing high-end functionality products. Leveraging on the existing sales team, TEDAX² promotes its products to targeted customers nationwide and aims to become the leading domestic brand name of sleeping status equipment, as well as to be one of the Group's major profit contributors in the long run.

Meanwhile, the Group will continue to enhance and establish its sales team to complement the Group's selling of health foods and products. The Group will also distribute medical equipment and testing agents for treating respiratory, cardiac/neurological/vascular diseases, as well as search for domestic and international products with high profit margins through Wan Tai. Wan Tai is gearing towards becoming the most preferred distributor in medical equipment in the PRC and aims to establish an image of high product quality and service standards and to become the supporting foundation of smooth and steady development for the Group's manufacturing, distribution and sales business.

"Alpha" products consistently generate steady revenue for the Group. Coupled with the launch of new health products, it is expected that "Alpha" health products will witness steady growth in turnover in 2003. The success of "Alpha" is an evidence of a winning business model for a quality diabetic health food brand name.



The Group has decided to acquire the "Yisheng" brand and explore over-the-counter ("OTC") channels and overseas market by leveraging on the successful model of "Alpha". It is expected to witness encouraging sales performance and successfully tap into the research and development of fungi technology. Eyeing the opportunities of the 2004 Athens Olympics and the 2008 Beijing Olympics, the Group will develop new products to target the athlete's market and further consolidate the Group's health product business.



Leveraging on the successful model of "Alpha", we decided to acquire the "Yisheng" brand

WORDS OF APPRECIATION

With a detailed business development strategy, the experience and expertise of the management, the research and development capability of the Group as well as the extensive sales network in both the PRC's health food industry and the biomedical engineering product market, the management of the Group is confident that it is heading towards the road of profitability and success.

I would like to present my gratitude to our business partners, customers and shareholders for their endless support. On behalf of the Board, I would also like to thank our staff for their loyalty and dedication. We look forward to enviable results in the coming years.

Wang Shuxin

Chairman

20 March 2003



COMMERCIALIZATION





ABILITY TO TURN **RESEARCH
AND DEVELOPMENT** RESULTS
INTO COMMERCIALIZED
PRODUCTS

STRATEGY



A powerhouse that researches and develops series of medical and health products using biomedical engineering technologies

TEDA Biomedical is a powerhouse that researches and develops series of medical and health products using biomedical engineering technologies. The Group is capable of turning research and development results into commercialized products and providing solutions to biotechnology and medical doubts. Biomedical industry is characterized by long research and development process and high profit margins. In the past, TEDA Biomedical endeavoured to develop itself as a market-oriented and a full-fledged biomedical engineering corporation which engaged in research and development, manufacture,

wholesale and distribution of natural pharmaceuticals, diabetic health products and biomedical equipment.

OPERATING ENVIRONMENT

In 2002, the global economy was still suffering from the effects of the "911 Incident" and political tensions, the business environment worldwide remained challenging and difficult. However, the PRC's economy continued to demonstrate a strong growth momentum and has successfully sustained its 7% growth in GDP. Such promising development indicated an encouraging outlook.

The management of TEDA Biomedical strongly believes that the fundamentals of the the PRC's medical and health food markets have changed. Since the PRC's accession into World Trade Organization ("WTO"), average customs duties of medical equipment have been lowered from 10% to 4%, and the management believes that the profit margin of carrying trading business of medical equipment would be promising. Since the Government abandoned the approval procedures for imported large-sized medical equipment in 2002, the sales of the Group's medical equipment business will undoubtedly face fiercer competition than before.

MANAGEMENT DISCUSSION AND ANALYSIS

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Nevertheless, TEDA Biomedical has leveraged on its long established brand recognition and sales network in the PRC, as well as its competitive prices to excel in this market of huge potentials. Furthermore, the PRC accession into WTO also provided a good opportunity for the Group to enter into the international market and act as the distributor of foreign products to complement its products, creating a sturdy foundation for the Group's profitability.

In a micro sense, every market that related to the Group's business is characterized by its vast demand, promising return, long research and development processes and huge entry barriers. Medical monitors being aggressively developed by the Group is one of the typical examples. The Group has sold 15 sets at RMB34,815 per unit in 2002, representing a gross profit margin of about 63%. It is expected that the sales volume of the medical monitors will increase continuously.

The Group is planning to produce surface modified intraocular lens for cataract patients. In 2001, total number of consumption of that product in the PRC market reached 450,000 sets. With about 4 million cataract patients in the PRC, the market demand is huge. The Group expects to sell 76,000 sets of surface modified intraocular lens in 2004, with a price range from RMB200 to RMB700 per set.

The Group targets its diabetic health products at over 50 million diabetic patients across the PRC serving different needs, including the preventive, healing and recovery stages. These products are well received by the market, indicating that the Group is heading towards a successful strategic direction.

In the PRC, the research and development of medical products are still under the stringent government supervision. Clinical catheters and medical monitoring equipment manufactured by the Group require Class II control, which usually requires 1 to 2 years to obtain the necessary production approval by provincial government authorities. Products that are implanted into human body including sodium hyaluronate, renal dialysis and surface modified intraocular lens require even tighter control, which usually require 3 to 10 years to obtain the necessary production approval by the national government authorities. The high entry barriers of these medical products allow TEDA Biomedical to enjoy its first mover advantage and excel over its competitors.

Following the medical reform in the PRC, the dispensary and medical consultation will gradually become separated, and the pharmaceutical industry will inevitably be affected by future changes in prices and dosage. The operation of medical organizations in the PRC would focus on enhancing their services quality to gain a higher premium.

The Group is confident that the trend will help boost the demand of medical equipment and diagnostic test kits, as well as to expand its presence in the market. The Group is also expecting to achieve equal success on its health food business, contributing the Group an optimistic and positive prospects.

RESULT ANALYSIS

During the year under review, the Group showed an improvement in sales. Turnover was approximately RMB30.4 million, representing an increase of 19.20% as compared to the corresponding period in 2001, and the overall gross profit margin was successfully maintained slightly higher than last year. However, the Group still recorded a total of RMB13.9 million in loss attributable to shareholders, as a result of the enhancement of research and development, and expansion sales network of Wan Tai, in order to fortify our foundation works, as well as the provisions for amortisation of goodwill of TEDAX² and its impairment loss of inventory.

The Group will continue to launch medical equipment and materials under the "TEDA" brand name. In August 2002, the Group invested RMB8.4 million to establish the joint venture subsidiary - TEDAX² which is principally engaged in the manufacture and sales of medical equipment including sleeping status equipment and the SRM-Angel-110 multi-parameter medical monitor.

Working for the health of mankind by effecting a fruitful marriage between innovative technology and product commercialization



TEDAX² contributed sales turnover of RMB2.8 million to the Group in 2002. However, since TEDAX² is newly established, loss attributable to shareholders was increased by RMB957,549 in 2002 after inclusion of TEDAX² in our Group.

“Alpha” products continued to be the Group’s major source of income and recorded RMB24.1 million in turnover, or 20.02% higher than that of 2001, representing approximately 80% of the total turnover in 2002. The increase in turnover is mainly attributable to its brand recognition, its unrelenting efforts on the expansion of sales network and the encouraging sales performance of its seasonal products, including sugar-free mooncakes. The average gross profit margin of “Alpha” products maintained at about 53%.

Together with the ideal sales of “Alpha” products, the Group also witnessed a promising development for its joint venture subsidiary - TEDAX² of sleeping curing products, as well as obtaining the necessary approvals from the

Government. All of the above brought forth a steady revenue stream for the Group.

RESEARCH AND DEVELOPMENT CAPABILITIES

TEDA Biomedical relies on its unrivaled research capability through its core team comprising 15 scientists under the leadership of Professor Gu Hanqing and Mr. Xie Kehua. In addition, the Group also employs 14 professional consultants to advise the Group on its business development and projects. The management of the Group also works closely together with prominent universities and research institutes, including The Chinese Academy of Medical Science (Research Institute of Pharmaceuticals), Nankai University (Research Institute of Organic Chemicals) and Tianjin University.

The unique scientific research model allows the Group to surpass its peers in biomedical engineering and thus, fortifies the competitive edge of the Group.

SALES HIGHLIGHTS

“Alpha” products maintained its edge in the sugar-reducing foods market, and at the same time it continued the promotion of its sugar-free products. The Group focused its sales efforts to 25 regions in the PRC with high market potential and better quality of sales agents, and targeted to supermarkets to promote its diverse and comprehensive product range, especially sugar-reducing milk powder, biscuits, tea and mooncakes. The Group will also launch new products to stay abreast of market needs, and even consider introducing “Alpha” products to Hong Kong. The goal is to increase sales through strengthening and extending its sales network and sustain continuous growth.

The Group has also committed to launching the “Yisheng” brand after the establishment of the new joint venture subsidiary named Tianjin Yisheng Bioengineering Company Limited (“Yisheng”). While leveraging on the existing sales channels of “Alpha” products, the Group will also actively develop the OTC channel and to position “Yisheng” as the health foods in the high-end market. The marketing strategy of “Yisheng” will be in line with the image of the Group, confining to natural fungi products and highlighting the technological features of biomedical engineering. “Yisheng” will continue to develop new products in dosage forms and incorporate new functions on a regular basis. With the highly anticipated Olympic Games in 2004 and 2008, the Group will incorporate the Olympics theme with the

MANAGEMENT DISCUSSION AND ANALYSIS

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"Yisheng" brand, so as to expand the market coverage of its health foods from diabetic patients to white-collars and athletes. The management of the Group expects that "Yisheng" brand will capture substantial market shares in 2003 and be ready for its overseas development in 2004.

Through the Group's subsidiaries, the Group develop a series of new products, with sleeping monitor as the lead product, and cardio sleeping status equipment as secondary products to establish the position as the best sleeping monitor product in the nation. Starting with the 3A hospitals in the PRC as the main target, the Group aims to expand its marketing activities to the hospitals across the region. The Group is also committed to participating in large-scale exhibitions and professional academic conferences for promoting products, collecting information and generating buying interest. The goal is to establish 5 sales offices for the construction of an extensive sales network.

Similar to the sleeping monitor products, the Group is actively developing the distribution of medical equipment for treating respiratory, cardiac/neurological/vascular diseases, tumors and other diseases as well as diagnosis testing kits. Together with the Group's own products and its existing sales resources, the Group develops national-wide sales and distribution network.

FINANCIAL STATUS AND ASSETS STRUCTURE

Throughout 2002, the Group witnessed profitability through operating its "Alpha" and "TEDA" products in the PRC. In addition, cost of sales and distribution and selling expenses increased from RMB23.5 million in 2001 to RMB27.7 million in 2002. Among these costs, distribution and selling expenses climbed to approximately RMB12.0 million, due to the increasing efforts in building the sales teams and expanding the sales network. In 2003, the Group will continue to adopt a more extensive and effective sales strategy, by customizing effective sales strategies to propel significant revenue growth. The Group will also try to enhance its logistics management and lower the average sales cost for further profitability.

Administration, research and development and goodwill amortization of the Group increased by approximately 50% to RMB 16.7 million when compared to corresponding period in 2001. The above expenses included staff costs of RMB9.6 million (2001: RMB 6.1 million), amortization of proprietary technology of RMB 366,564 (2001: Nil), and inventory obsolescence and written off RMB 1.1 million (2001: RMB284,834). The Group will continue to abide by its stringent cost control measures and adopt the most cost-effective methodology for daily operations.

OUTLOOK

As the pioneer of biomedical engineering in the PRC, TEDA Biomedical is committed to developing various medical and healthcare products for the patients in the PRC. In line with the pace of product commercialization, the Group will further expand its sales and marketing network, including the possibility of extending its network to the Hong Kong market. The Group aims to establish a multi-purpose sale channel to introduce and sell the major products and high-end imported medical equipment to most of the provincial hospitals and the 3A hospitals across the country. Apart from that, the management of the Group will also actively develop the market of non-diabetics sugar-free health products.

With the cooperation with other research organizations to pursue research and development excellence and to launch new products, the Group strongly believes that it can achieve promising results in the coming year and generate fruitful returns for all the shareholders.

MAJOR INVESTMENT

The Group invested RMB8.4 million in August 2002 to establish the joint venture subsidiary named TEDAX² and owns a 60% stake in it. TEDAX² is principally engaged in the manufacture and sales of monitoring equipment including sleeping status equipment and the SRM-Angel-110 multi-parameter medical monitor.



We continued to cooperate with renowned research and development institutions and manufacturers to accelerate the pace of product commercialization



SEGMENTAL INFORMATION

The Group principally operates in two business segments: diabetic health products and other medical and health products using technology in biomedical technology.

The results of the Group segregated by segments during the year ended 31 December 2002 and the year ended 31 December 2001 are analyzed as follows:

	For the year ended 31 December 2002	For the year ended 31 December 2001
	RMB	RMB
Segment revenues:		
- Diabetic health products	24,911,225	20,059,318
- Other medical and health products	6,176,580	5,466,199
Segment results:		
- Diabetic health products	(983,055)	(1,098,194)
- Other medical and health products	(12,280,693)	(7,926,446)

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

During the year under review, the Group financed its operations by internally generated cashflow, banking facilities and a portion of the listing proceeds.

As at 31 December 2002, the Group's consolidated shareholders' funds, current assets and net current assets /(liabilities) were about RMB70.9 million (2001:RMB13.3 million), RMB93.7 million (2001: RMB

28.3 million) and RMB53.1 million (2001:RMB(1.6 million)) respectively. The increase in current assets and net current assets were due to capital raising of about HK\$98 million from the issue of new H shares upon the Company's successful listing on GEM in June 2002. The Group's current assets as at 31 December 2002 comprised mainly cash and bank balances of RMB40.5 million (31 December 2001: RM7.9 million) and pledged bank deposit of RMB24.9 million (31 December 2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

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As at 31 December 2002, the total bank borrowings for the Group amounted to RMB27.6 million. The bank borrowings were denominated in Renminbi and provided by various PRC licensed banks and bear fixed interest rates within the range from 5.31% to 6.903% (31 December 2001: 6.138% to 7.605%) per annum. The major portion of the bank borrowings in total sum of RMB20 million will be matured on 27 June 2003. The remaining portion in total sum of RMB7.6 million will be matured on variable dates from 6 April 2003 to 10 November 2003.

As at 31 December 2002, the Group's gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0.39 (31 December 2001: 1.58). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.31 (31 December 2001: 0.95).

The Directors of the Company believe that the Group is in a healthy financial position and has sufficient financial resources to expand its core business and achieve its business objectives.

CHARGES ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2002, fixed deposit of RMB24.9 million was pledged as security for granting of bank borrowings of RMB20 million to the Company.

As at 31 December 2002, the Company had provided guarantee as security for bank borrowings of RMB2.6 million granted to a wholly owned subsidiary of TEDAX². At the same time, the Company also has provided guarantee as security for bank borrowings of RMB5 million granted to "Alpha".

MATERIAL ACQUISITION AND DISPOSALS

On 17 February 2003, a new subsidiary, "Yisheng", which is principally engaged in the manufacture and distribution of health products, biomedical equipment and biomaterials was established. The Company has 70% equity interest in this newly established subsidiary. Due to changes in market situation, the negotiation with Tianjin Chinese Medical Group Company for the investment in Proposed Tianjin Tongrentong Joint Venture as stated in the prospectus of the Company (the "prospectus") was stopped.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group had 344 employees (2001: 213 employees). Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme, medical scheme, unemployment insurance scheme and housing fund. For the year ended 31 December 2002, the salaries expenses (including emoluments of directors and supervisors and pension costs) of the Group were approximately RMB9.6 million (2001: RMB6.2 million). The increase in salaries was mainly due to increase in number of employees and adjustment of salaries amounts.

EXPOSURE TO FOREIGN CURRENCY RISK

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

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF PROCEEDS

The Company has raised net proceeds of HK\$ 70 million from the Placing of new H shares in June 2002. Up to 31 December 2002, the Group has applied the net proceeds as follows:

<i>(HK\$ million)</i>	USE OF PROCEEDS AS STATED IN THE PROSPECTUS	ACTUAL AMOUNT UTILISED UP TO 31 DECEMBER 2002
Research and development	2.5	0.7
Expansion of production facilities	16.3	0.5
Expansion of marketing and distribution network	5.5	2.8
Accelerating the commercialisations of products	35.2	7.9
Establishment of treatment centres	5.0	0.0
Working Capital	5.0	10.5
TOTAL	69.5	22.4

Since the Group has adopted a conservative approach for setting up joint ventures with business partners, the use of proceeds in accelerating the commercialization of products is relatively little as compared to original plan of application of fund for such purpose as stated in the Prospectus. However, the Company expects that when negotiations with potential partners continue, the utilization of proceeds for commercialization of products will increase in the year to come. Similarly the negotiations

with various hospitals for the establishment of treatment centres are still going on and once there are concrete plans, the utilization of HK\$5 million for such purpose will be confirmed.

Due to extra time required for identification of new business opportunities and the slow start up of new business, approximately HK\$10.5 million was used as additional working capital for daily operation of the Group within the period from listing date to

31 December 2003. It is longer than the expected period from listing date to 30 June 2003. The Company expects that when more and more new products are commercialized and sold in the market, adequate cashflow will be generated for support of the daily operation of the Group.

Apart from investment in TEDAX² in August 2002 as disclosed in the third quarterly report 2002, the Company invested in a new subsidiary, "Yisheng", by cash contribution of RMB3.5 million for an 70% equity interest in February 2003. The source of fund was from the proceeds originally planned for the investment in Tianjin Tongrentang as stated in the Prospectus. Due to changes in market situation, the negotiation with Tianjin Chinese Medical Company Group for investment in Tianjin Tongrentang was stopped.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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A comparison of the business objectives with the Group's actual business progress is set out below:

Business objectives as stated

in the prospectus dated 10 June 2002

Actual business progress up to 31 December 2002

Research and development of new medical and health products:

(a) Clinical catheters

- | | |
|--|---|
| <ul style="list-style-type: none">• Improve the bio-compatibility of catheters for medical use• Improve the bio-compatibility in terms of surface smoothness for the production of catheters for medical use• Continued research and development of silicone rubber catheters and silicon rubber medical catheters | <ul style="list-style-type: none">• Continued to improve the bio-compatibility of catheters for medical use• Improved the bio-compatibility of surface smoothness for the production of catheters and obtained the trial production certificate of surface smoothness catheters for medical use in March 2002• Continued research and development of silicone rubber catheters and silicon rubber medical catheters |
|--|---|

(b) Dialysis equipment

- | | |
|--|--|
| <ul style="list-style-type: none">• research and development of resin for the absorption of organic phosphorous and the absorption of high lipemia• research and development of absorption material for Bilirubin and absorption material for treating liver failure• Trial production permit obtained for blood perfusion machine and blood plasma separation machine | <ul style="list-style-type: none">• Continued research and development of resin for the absorption of organic phosphorous and the absorption of high lipemia• Continued research and development of absorption material for Bilirubin and absorption material for treating liver failure• The inspection result reports for blood perfusion machine and blood plasma separation machine were obtained in October 2002 and trial production permits will be expected to be obtained in 2003 |
|--|--|

(c) Surface modified intraocular lens

- | | |
|--|---|
| <ul style="list-style-type: none">• Apply for production permits• Continue research and development on surface modification engineering• Commence research and development of soft artificial lenses | <ul style="list-style-type: none">• Passed the examination of National Inspection Centre in compliance with national standard and formal inspection result report will be obtained in the first quarter of 2003• Continued research and development on surface modification engineering• Commenced research and development of soft artificial lenses |
|--|---|

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002

(d) Sodium hyaluronate

- Apply for production permit for sodium hyaluronate
- Research relating to molecular weight and molecular structures of different grades of sodium hyaluronate
- Commence research and development relating to the application of sodium hyaluronate joint lubrication
- Commence research and development of sodium hyaluronate eye drops
- research and development relating to the application of sodium hyaluronate to fluids for medical uses

(e) Breast implants

- Continue research and development on aquagel breast implants

(f) Tissue engineering

- Commence research on skin tissue
- Commence research on human cell division
- Commence research genetic treatment of liver disease
- Commence research on human liver cell growth reactor

(g) Medical monitoring systems

- Commence research and development of respiratory monitors, and monitors enabling remote patient monitoring through internet-based networks

Actual business progress up to 31 December 2002

- Obtained the production registration certificate for sodium hyaluronate under the name of TEDA Biomaterial and Medical Engineering Institute and is now in the process of transferring such certificate to the Company
- Continued research and it is expected to disclose the result in July 2003 during the Asian Biomaterial Meeting in Chengdu, PRC
- research and development commenced relating to the application of sodium hyaluronate joint lubrication
- research and development commenced relating to sodium hyaluronate eye drops
- research and development continued relating to the application of sodium hyaluronate to fluids for medical uses
- Continued research and development on aquagel breast implants
- Commenced research on skin tissue
- Commenced research on human cell division
- Commenced research on genetic treatment of liver disease
- Research commenced and reports will be disclosed during the first conference meeting of human liver research

- Commenced research and development of respiratory monitors, and monitors enabling remote patient monitoring through internet-based networks

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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Business objectives as stated in the prospectus dated 10 June 2002

(h) Milk powder for diabetic patients

- Expect to receive approval for the production of milk powder for diabetic patients by August 2002
- Derive marketing strategies for milk powder for diabetic patients
- Preparation for production of milk powder for diabetic patients
- Production to commence
- Commence advertising and marketing for milk powder for diabetic patients

(i) Biological organic vanadium for diabetic patients

- Continue and enhance research and development of Biological organic vanadium to lower glucose levels in the blood with the Pharmaceutical Research Centre of the PRC Science and Medical Institute and Nankai University

(j) Herbal research

- Select herbs and plant extracts which have the effect of lowering glucose levels in the blood including garlic, Chinese goldthread bitter melon, ginseng and commence research and development as to application and rises of such herbs in diabetic health products

Actual business progress up to 31 December 2002

- Obtained and the production certificate of milk powder for diabetic patients. The product was launched in March 2003
- In September 2002, marketing strategies including promotion plans were determined for milk powder for diabetic patients
- The production line for milk powder was well prepared with raw material being ordered from suppliers
- Production will commence in March 2003
- Advertising and marketing will commence in April 2003
- Continued research and development of Biological organic vanadium with the Pharmaceutical Research Centre of the PRC Science and Medical Institute and Nankai University
- Selected "coprinus ovatus" herbs which have passed human tests of lowering blood glucose level and commenced research and development of its application in enhancing body strength when used by human beings. A joint venture with an independent party will be set up in first quarter of 2003 for the production and sales of such products to diabetic patients

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002

Develop strategic alliances

- Active participation by the Group's professional personnel in seminars and conferences of related industries
- Seek for and establish new strategic alliance partners in further developing the Group's business activities in the PRC and possibly overseas

Expansion of research facilities

- Continue to enhance the Group's existing research and development facility

Expansion of distribution network

- Provide assistance to hospital to establish about 5 treatment centres located in clinics using the Group's BME products
- Expand BME sales and marketing team of Wan Tai
- Progressively build up distribution network of medical and health products using technology in the Biomedical Engineering discipline (other than diabetic health products)
- Establish marketing and liaison offices for the Group's diabetic health products in Harbin, Xian, Wuhan and Jinan
- Expand sales force of Wan Tai to at least 17 persons
- Open representative office for Wan Tai in 2 cities in Shangdong, Hubei Provinces and in Tianjin
- Commence television advertising campaign for the Group's diabetic health products in a number of cities in the PRC

Actual business progress up to 31 December 2002

- Participated in several seminars and conferences of related industries including the National Biomedical Engineering Industry Conference held by China National Engineering Institute in December 2002
- An agreement was entered into with BCT Global Development Limited for the promotion of the Group's products in South East Asia
- Continued to enhance existing research and development facility of the Group
- The plan of setting up 5 treatment centres was under negotiation with various hospitals in PRC
- The number of sales and marketing personnel employed by Wan Tai was increased to 17
- After set up of TEDAX², the original distribution network developed by China Xinxing Medical and Pharmaceutical Technology Development Corporation ("China Xinxing") in northern part of China could be utilized for our medical and health products. Simultaneously, the distribution network in southern part of China was progressively built up
- Established marketing and liaison offices for the Group's diabetic health products in Harbin, Xian, Wuhan and Jinan
- There were 17 marketing and sales employees in Wan Tai as at 31 December 2002
- Branch office in Tianjin was established for Wan Tai and representative offices in Hangzhou, Wuhan, Chongqing were opened
- Commenced television advertising campaign in Tianjin and are planning to commence TV advertising in other PRC cities

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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Business objectives as stated in the prospectus dated 10 June 2002

Accelerating the commercialisation of products developed

- Establish management and administration system of the Proposed Tianjin Tongrentang Joint Venture
- Finalise negotiations with Tianjin Chinese Medical Group Company and enter into contracts to establish the Proposed Tianjin Tongrentang Joint Venture and completed investment formalities
- Seek marketing strategies for the Proposed Tianjin Tongrentang Joint Venture
- Complete due diligence on investment in a joint venture to produce sodium hyaluronate and commence negotiations regarding detailed terms of joint venture
- Complete investment in the Proposed Sodium Hyaluronate Joint Venture to produce sodium hyaluronate
- Commence production of sodium hyaluronate through the Proposed Sodium Hyaluronate Joint Venture
- Complete joint venture investment in the Proposed Xinxing TEDA Joint Venture
- Commence manufacturing of monitoring equipment through the Proposed Xinxing TEDA Joint Venture
- Complete investment in the Proposed Plastic Joint Venture
- Commence production of various kinds of catheters

Actual business progress up to 31 December 2002

- The project of Proposed Tianjin Tongrentang Joint Venture will be replaced by Yisheng Joint Venture as mentioned in the section headed "Material acquisition and disposals"
- The negotiation with Tianjin Chinese Medical Group Company was stopped due to changes in market situation and the discovery of replacement project as stated in the section headed "Material acquisition and disposals"
- The negotiation for the set up of Proposed Tianjin Tongrentang Joint Venture was stopped and therefore no formulation of marketing strategies was needed
- Due to unexpected difficulties encountered during negotiation with potential business partner, due diligence on investment in a joint venture to produce sodium hyaluronate was not completed
- Since due diligence and negotiations regarding detailed terms of proposed joint venture was not completed, the investment in the Proposed Sodium Hyaluronate Joint Venture was delayed
- Since investment in Proposed Sodium Hyaluronate Joint Venture was not completed, production has not yet commenced
- Joint venture investment in TEDAX² was completed in August 2002
- Manufacturing of monitoring equipment through TEDAX² commenced in August 2002
- Negotiation with independent third party for the set up of Proposed Plastic Joint Venture continued and investment not yet completed
- Production and sales of various kinds of catheters was commenced

DIRECTORS

Executive Directors

Mr. Wang Shuxin, aged 38, is the Chairman of the Board of Directors of the Company and is responsible for the Company's strategic planning and business development. Mr. Wang was instrumental in the establishment of TTII in April 1996 and has been IBME's legal representative since January 1998. He was appointed as Chairman of the Board of Directors in September 2000. Mr. Wang graduated from Tianjin University in 1988 with a master's degree in Organic Chemical Engineering. In February 1999, he obtained a post-graduate qualification in accounting from Tianjin Financial Institute of Finance and Economic. In 1997, Mr. Wang participated in the commercialisation 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 in 1998. In 1999, Mr. Wang led the establishment of an enterprise postdoctoral research workstation in TEDA. Mr. Wang has been the supervisor of TTII since 1996 and has held the position of Chairman of TTII since December 1997.

Mr. He Ning, aged 45, graduated from Home Appliance Company Employee University in 1981. Mr. He is responsible for the new project development of the Group. Before joining the Group in September 2000, Mr. He worked in Tianjin Plastic Factory as a technical engineer in 1993. Mr. He is also the Departmental Manager of TEDA State-owned Asset Management Company. He became an executive Director in September 2000.

Mr. Xie Kehua, aged 46, is the director and general manager of Alpha. Mr. Xie graduated from Chinese Traditional Medicine Department of Heilongjiang Institute of Commerce in July 1982 with a bachelor degree. Mr. Xie was appointed as the chief engineer of the Chinese medicine factory under the Tianjin Chinese Medicine Group and was the supervisor of Hangzhou Wahaha Group Research and Development Centre. He was awarded the Best Scholar of New Products and became leader of the Initiation of Technology Development in 1992 and was further recognised 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 in September 2000.

Professor Gu Hanqing, aged 57, obtained from Tianjin University master's degree in engineering and is a professor of Tianjin Medical University, a doctorate tutor and a part-time professor of the biomedical engineering faculty of Tianjin University. He is currently the director of the research department of the Tianjin Institute of Urological Surgery, and a research leader in IBME. He has participated in research work on biomaterials and products since completing his academic qualifications in 1966 and has received awards. Professor Gu joined IBME in January 1998 and became an executive Director in September 2000.

Ms. Zheng Dan, aged 38, is the assistant general manager responsible for marketing activities of the Company. Ms. Zheng was responsible for TTII's management accounting, public accounting and financial management. Ms. Zheng started her professional career in 1988 and joined TTII in 1996. Ms. Zheng graduated from the Accounting Department of Tianjin Institute of Finance and Economic with a bachelor degree in economics in 1986. Ms. Zheng became an executive Director in September 2000.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Non-executive Directors

Mr. Feng Enqing, aged 43, graduated from Tianjin Industrial University in 1982 with a degree in textile chemical engineering and joined TTII as the project manager in 1996. He was previously the supervisor and chief engineer of Tianjin Xinggang Textile Manufacture. Mr. Feng is a director of Alpha and the chief engineer of TTII. He joined the Company in September 2000.

Mr. Li Qingyu, aged 29, graduated from Peking University's Physics Department in 1997. He is currently the deputy head of the property division in TTII. He is responsible for the maintenance of the Group's production equipment and facilities. He is responsible for the construction works of the TEDA Technology Park of the Institute. He was appointed as non-executive Director of the Company in November 2000.

Professor Du Zhi, aged 49, is a Director of Tianjin No. 3 Central Hospital. Professor Du graduated from Leeds University (UK) with a Master's degree in medical studies and was awarded a doctorate degree in surgery by Tianjin Medical University. Professor Du is also a professor and chief surgeon of Tianjin No. 3 Central Hospital. In April 1999, he was named one of "The Ten Best Medical Workers". In November 1999 he was named one of the best directors of hospitals nationwide. Professor Du was awarded a silver medal in the Fifth National Exhibition for his clinical study of DNA immune absorption and NK-110 absorption resin blood perfusion. Professor Du was granted a licence for clinical practice between 1996 and 1997 by the National Medical Committee of the United Kingdom. In November 2000 he was appointed as a non-executive Director of the Company. Currently, Professor Du provides technology support to the Company in relation to the Biomedical Engineering.

Professor Sun Zhiyuan, aged 61, is a professor of Nankai University. He was studied organic chemistry at the Institute of Organic Chemistry of Nankai University. Between 1993 and 1995 he studied photochromic materials and new medicine at the University of Maryland of the United States. He is currently studying medicine, healthcare products and the synthesis of agricultural chemicals. He was appointed as non-executive Director of the Company in November 2000. Professor Sun provides technology support to the Company in respect of diabetic health products.

Independent non-executive Directors

Professor Xiao Zhouji, aged 69, currently the professor of the Faculty of Economics of the Beijing University and a doctorate tutor, the Member of Standing Committee of the Tenth National Committee of the Chinese People's Political Consultative Conference, He is also an independent director of China International Marine Containers Co., Ltd. (中國國際海運集裝箱股份有限公司) and an independent director of Shenzhen Konka Co., Ltd. (深圳康佳股份有限公司).

Professor Xan Guoming, aged 48, is a professor of Nankai University and the tutor of candidates pursuing the doctoral degree. He is the head of the Teda Faculty of Nankai University, and the director of Research Center of Multi-national Corporations of Nankai University. Professor Xan 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 specialises in research on international investments by multi-national corporations. He was appointed as an independent non-executive Director in August 2001.

SUPERVISORS

Mr. Hao Zhihui, aged 41, is the chairman of supervisor's board. Mr. Hao graduated from Tianjin Medical University in 1992 with master's degree in medicine. Mr. Hao joined TTII in September 1997, and is presently Chief of the Medicine Industry Department and is responsible for the supervision of TTII's Medical Industry Department. He participated in strategic research on the bio-medical's industry development in TEDA and is mainly responsible for the management of the research and development of curcumin. Mr. Hao is a director of Alpha, and Tianjin Tetrahedron Chemical Co., Ltd.. He joined the Company in September 2000.

Mr. Yuan Wei, aged 51, 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 was appointed as supervisor in September 2000.

Mr. Chang Zheng, aged 34, graduated from the Accounting Department of Tianjin Institute of Finance and Economic in 1991 with a bachelor's degree in Economics. He was previously a financial manager at Sino-American Tianjin Yousheng Industry Co., Ltd.. He joined TTII in June 1999, and is the head of the Finance Department of TTII. Mr. Chang was appointed as supervisor in September 2000.

Independent Supervisors

Mr. Xie Guangbei, aged 48, 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. He was an engineer of the Business Department of China Shizheng Huabei College of Design, director and deputy general manager and senior engineer of Tianjin Eastern International Engineering Consultancy. He joined the Company in November 2000.

Mr. Zhu Gang, aged 38, graduated from Tianjin University in 1993 with a master's degree in Management Engineering. He is a certified public accountant in the PRC and obtained PRC registration in account and securities auditing in 1999. Mr. Zhu was the president of Tianjin Chuangxin Investment Management Co. and was employed as the general manager of Tianjin Songde Certified Public Accountant in 1997 and has considerable experience in accounting and management finance.

SENIOR MANAGEMENT

Qualified Accountant, Financial Controller and Company Secretary

Mr. Yip Pak Shing, Edmund, aged 47, graduated from the Chinese University of Hong Kong in 1979 with a bachelor's degree in Business Administration. He is a certified accountant in Hong Kong, Canada and the United Kingdom. Mr. Yip had 4 years of working experience in international accounting firms, and subsequently worked as the Chief Accountant in various private companies in Hong Kong and Canada. From 1995, Mr. Yip worked as a financial controller of joint venture companies established by multinational corporations in the PRC before joining the Group in October 2000.

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 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activities of the Company are investment holding, research, development, manufacturing, marketing and sales of biomedical equipment and biomaterials. 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 4 to the accompanying financial statements.

CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 24 May 2002, the name of the Company was changed from Tianjin TEDA Bio-Tech Company Limited to Tianjin TEDA Biomedical Engineering Company Limited. The change of the Company's name was approved by the Administration of Commerce and Industry of Tianjin on 24 May 2002.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 38 of this annual report.

The Directors do not recommend the payment of a final dividend.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 43 to 45 of this annual report respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 13 to the accompanying financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 26 to the accompanying financial statements.

DISTRIBUTABLE RESERVE

Details of distributable reserve of the Company at 31 December 2002 are set out in the statement of changes in equity on page 45 of this annual report.

PRE-EMPTIVE RIGHT

There is no provision for pre-emptive right under the company's Articles of Association and there is no restriction against such a right under the laws of the People's Republic of China.

THREE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 5.

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

The Directors during the year were:

Executive Directors:

Mr. Wang Shuxin (王書新)
Mr. He Ning (何寧)
Mr. Xie Kehua (謝克華)
Professor Gu Hanqing (顧漢卿教授)
Ms. Zheng Dan (鄭丹)

Non-executive Directors:

Mr. Feng Enqing (馮恩慶)
Mr. Li Qingyu (李青宇)
Professor Du Zhi (杜智教授)
Professor Sun Zhiyuan (孫致遠教授)

Independent Non-executive Directors:

Professor Xan Guoming (冼國明教授)
Mr. Shan Ping (單平) [resigned on 18 November 2002]
Professor Xiao Zhuoji (蕭灼基教授) [appointed on 17 January 2003]

Supervisors:

Mr. Hao Zhihui (郝志輝)
Mr. Yuan Wei (袁偉)
Mr. Chang Zheng (常崢)

Independent Supervisors:

Mr. Xie Guangbei (謝光北)
Mr. Zhu Gang (祝剛)

DIRECTORS *(Continued)*

After the resignation of Mr. Shan Ping on 18 November 2002, the number of independent non-executive director of the Company reduced to one. This constituted a breach of Rules 5.05 and 5.23 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") (the "Listing Rules"). The appointment of Professor Xiao Zhuoji on 17 January 2003 has placed the Company in compliance with such requirements again since then.

Professor Xiao Zhuoji was appointed for a term of approximately three years expiring on 1 January 2005.

There being no provision in the Company's Articles of Association for retirement by rotation, all Directors continue in office.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respect identical and are set out below:

- (i) each service contract is for an initial term of three years commencing on 1 January 2002 and thereafter subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed each time for three years;
- (ii) subject to resolution passed at shareholders' meeting of the Company, the remuneration of each of the executive Directors and Supervisors may be changed;
- (iii) the basic annual salary and allowance of each of the Directors and Supervisors for the three years ending 31 December 2004 are as follows:

The basic annual salaries of the executive Directors are as follows:

	RMB
Mr. Xie Kehua (謝克華)	150,000
Ms. Zheng Dan (鄭丹)	150,000
Professor Gu Hanqing (顧漢卿教授)	150,000
Mr. He Ning (何寧)	150,000

The basic annual salaries of the non-executive Directors are as follows:

	RMB
Mr. Feng Enqing (馮恩慶)	30,000
Mr. Li Qingyu (李青宇)	70,000
Professor Du Zhi (杜智教授)	30,000
Professor Sun Zhiyuan (孫致遠教授)	30,000

DIRECTORS' SERVICE CONTRACTS *(Continued)*

The basic annual salaries of the independent non-executive Directors are as follows:

	RMB
Mr. Shan Ping (單平)	10,000
Professor Xan Guoming (冼國明教授)	30,000

The basic annual salaries of the Supervisors are as follows:

	RMB
Mr. Hao Zhihui (郝志輝)	125,000
Mr. Yuan Wei (袁偉)	20,000
Mr. Chang Zheng (常崢)	20,000

The basic annual salaries of the independent Supervisors are as follows:

	RMB
Mr. Xie Guangbei (謝光北)	20,000
Mr. Zhu Gang (祝剛)	20,000

- (iv) each of the Directors and Supervisors is entitled to out-of-pocket expenses reasonably incurred during his/her term of office;
- (v) the Directors and Supervisors are not entitled to any bonus;
- (vi) the term of the appointment of Professor Xiao Zhuoji is for approximately three years and for an annual remuneration of RMB100,000;
- (vii) the remuneration of the Chairman of the Company, Mr. Wang Shuxin includes basic salary shall be increased from RMB200,000 to RMB480,000 per annum (after tax).

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which any of the Company's Directors 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, Supervisors and senior management are set out on pages 26 to 28 of this annual report.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

At 31 December 2002, the interests of the Directors, Supervisors and chief executive in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")), as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company were as follows:

Ordinary shares of RMBO.1 each in Company

	Number of shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Professor Gu Hanqing	14,000,000	—	—	—	14,000,000
Mr. Xie Kehua	9,000,000	—	—	—	9,000,000

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the period was the Company or its subsidiary a party to any arrangement to enable the directors and supervisors of the Company or their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors', Supervisors' and chief executive's.

Name of shareholders	Number of ordinary shares
Tianjin TEDA International Incubator	255,000,000
HKSCC Nominees Limited	99,745,000

Save as disclosed above, the Company had no notice of any interests to be recorded under section 16(1) of the SDI Ordinance as at 31 December 2002.

SPONSOR'S INTERESTS

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.

None of CSC Asia, its directors, employees nor associates had any shareholding interest in the securities of the Company or any member of the Group nor have any right or option (whether legally enforceable or not) to subscribe for a nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 December 2002.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

COMPETING INTERESTS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the businesses of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
- the largest supplier	10%
- five largest suppliers combined	32%
Sales	
- the largest customer	4%
- five largest customers combined	16%

None of the Directors, their associates or any shareholder (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

CONNECTED TRANSACTIONS

Significant related party transactions entered by the Group during the year ended 31 December 2002, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in Note 30 to the accompanying financial statements.

SET UP OF NEW SUBSIDIARY

On 17 February 2003, Tianjin Yisheng Bioengineering Co., Ltd. was set up of which the Company owned 70% of the share capital. The registered capital of this company is RMB5 million and the Company made a cash contribution of RMB3.5 million in February 2003.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

SHARE OPTION SCHEME

During the year ended 31 December 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 31 December 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.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee 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 of internal controls and risk evaluation. The Committee comprises two independent non-executive Directors, namely Professor Xan Guoming and Professor Xiao Zhuoji, and Mr. Hao Zhihui, who is a supervisor of the Company. Two meetings were held during the current financial year.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment. PricewaterhouseCoopers replaced Arthur Andersen & Co. when it did not stand for re-appointment at the annual general meeting on 19 November 2002.

On behalf of the Board

Wang Shuxin

Chairman

Tianjin, the PRC, 20 March 2003

Dear shareholders,

Strictly in accordance with the requirements of the Company Law of the People's Republic of China (the "Company Law") and the Articles of Association of the Company (the "Articles of Association"), the Supervisory Committee of 2002 performed its supervisory duties on the principle of integrity in order to protect the interests of shareholders and the Company as a whole. It proceeded with its supervisory duties cautiously and proactively, thereby resulted in the improvements in the Company's regulation and sustained development.

I. MEETING OF THE SUPERVISORY COMMITTEE AND RESOLUTIONS PASSED AT THE MEETING

On 20 March 2003, a meeting of the Supervisory Committee of the Company was convened at the conference room of the head office of the Company. The meeting considered and approved:

1. the consolidated financial statements of the Company for the year ended 31 December 2002 audited by PricewaterhouseCoopers; and
2. the use of proceeds.

II. PERFORMANCE OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD:

During the reporting period, the Supervisory Committee of the Company attended all the board meetings for the year 2002. Moreover, they also carefully supervised and examined the Company's financial position, operational decisions of the management, lawful operations of the Company and the acts of the Directors and the senior management in the operations. The Supervisory Committee considered that:

1. no violation of the Company Law, the Articles of Association and the laws and regulations of the PRC had arisen in the operating activities of the Group.
2. during the course of performing their duties for 2002, the Directors and the senior management had faithfully discharged their duties, observed the laws in operations, met the standards of management; they had been innovative in the Company's development, and they respected and protected the interests of the shareholders as a whole. No acts of violation of the Company Law, the Articles of Association and the laws and regulations of the PRC had occurred.
3. the auditors' report issued by PricewaterhouseCoopers has truly, objectively, and accurately reflected the Group's financial positions.

By order of the Supervisory Committee
Tianjin TEDA Biomedical Engineering Company Limited
Chairman of Supervisory Committee
Hao Zhihui

20 March 2003

AUDITORS' REPORT TO THE SHAREHOLDERS OF TIANJIN TEDA BIOMEDICAL ENGINEERING COMPANY LIMITED

(incorporated in the People's Republic of China with limited liability)

We have audited the accounts on pages 38 to 84 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

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Tianjin TEDA Biomedical Engineering Company Limited

	Note	2002 RMB	2001 RMB
TURNOVER	4(a)	30,431,095	25,525,517
Cost of sales		(15,645,728)	(13,394,733)
Gross profit		14,785,367	12,130,784
Other revenues	4(a)	1,199,764	130,559
Distribution and selling expenses		(12,037,862)	(10,106,097)
Administrative expenses		(15,302,185)	(9,482,391)
Research and development expenses, net of government grant of RMB803,856 (2001: Nil)		(1,103,095)	(1,335,915)
Amortisation of goodwill on consolidation	15	(262,683)	(231,021)
Operating loss	5	(12,720,694)	(8,894,081)
Finance costs	6	(1,248,771)	(970,523)
LOSS BEFORE TAXATION		(13,969,465)	(9,864,604)
Taxation	7(a)	—	—
Loss after taxation		(13,969,465)	(9,864,604)
Minority interests		120,618	8,268
Loss attributable to shareholders	8	(13,848,847)	(9,856,336)
Loss per share - basic	10	(3.96) cents	(3.29) cents

CONSOLIDATED BALANCE SHEET

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As at 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

	Note	2002 RMB	2001 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	14,389,361	11,398,926
Proprietary technologies	14	4,033,436	—
Goodwill on consolidation	15	4,968,696	3,834,687
		23,391,493	15,233,613
CURRENT ASSETS			
Inventories	17	8,193,213	1,916,215
Trade receivables	18	9,494,277	6,052,543
Prepayments and other receivables	19	8,885,934	2,607,832
Value-added tax recoverable	7(c)	245,859	—
Prepayments of listing expenses		—	8,954,291
Due from Tianjin TEDA International Incubator ("TTII")	20	1,096,266	828,765
Due from a director	21	20,754	12,397
Due from minority shareholders of a subsidiary	20	259,350	—
Restricted deposit	22	24,935,850	—
Cash and bank balances		40,527,637	7,906,435
		93,659,140	28,278,478
CURRENT LIABILITIES			
Trade payables	23	1,630,259	1,452,154
Other payables and accruals	11(b)	6,867,652	4,805,382
Government grants receipt in advance		1,852,008	—
Value-added tax payable	7(c)	117,412	10,073
Due to the sole investor of TTII	20	147,060	—
Due to directors	21	51,505	44,800
Short-term bank borrowings	24	27,600,000	21,000,000
Current portion of non-current liabilities	25	2,244,286	2,553,333
		40,510,182	29,865,742
NET CURRENT ASSETS/(LIABILITIES)		53,148,958	(1,587,264)
TOTAL ASSETS LESS CURRENT LIABILITIES		76,540,451	13,646,349

CONSOLIDATED BALANCE SHEET (continued)

As at 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

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Tianjin TEDA Biomedical Engineering Company Limited

	Note	2002 RMB	2001 RMB
Financed by:			
Share capital	26	40,000,000	30,000,000
Share premium		62,031,951	—
Accumulated losses		(33,642,301)	(19,793,454)
Capital reserve		2,541,404	3,081,404
<hr/>			
Shareholders' funds		70,931,054	13,287,950
Minority interests		4,909,397	91,732
Non-current liabilities	25	700,000	266,667
<hr/>			
		76,540,451	13,646,349
<hr/>			

Wang Shuxin
Director

Professor Gu Hanqing
Director

BALANCE SHEET

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As at 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

	Note	2002 RMB	2001 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	5,676,054	4,339,596
Interests in subsidiaries	16	26,624,172	14,584,351
		32,300,226	18,923,947
CURRENT ASSETS			
Inventories	17	1,256,965	379,451
Trade receivables	18	456,442	361,411
Prepayments and other receivables	19	6,684,273	906,299
Value-added tax recoverable	7(c)	106,902	118,458
Prepayments of listing expenses		—	8,954,291
Due from TTII	20	1,095,766	1,028,263
Due from a director	21	20,754	12,397
Restricted deposit	22	24,935,850	—
Cash and bank balances		29,356,090	5,424,353
		63,913,042	17,184,923
CURRENT LIABILITIES			
Trade payables	23	469,026	611,530
Other payables and accruals	11(b)	3,076,248	1,877,325
Due to the sole investor of TTII	20	147,060	—
Due to directors	21	51,505	44,800
Short-term bank borrowings	24	20,000,000	20,000,000
Current portion of non-current liabilities	25	944,286	2,553,333
		24,688,125	25,086,988
NET CURRENT ASSETS/(LIABILITIES)		39,224,917	(7,902,065)
TOTAL ASSETS LESS CURRENT LIABILITIES		71,525,143	11,021,882

BALANCE SHEET

(continued)

As at 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

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Tianjin TEDA Biomedical Engineering Company Limited

	Note	2002 RMB	2001 RMB
Financed by:			
Share capital	26	40,000,000	30,000,000
Share premium		62,031,951	—
Accumulated losses		(28,194,325)	(16,932,302)
Capital reserve		(2,312,483)	(2,312,483)
Shareholders' funds		71,525,143	10,755,215
Non-current liabilities	25	—	266,667
		71,525,143	11,021,882

Wang Shuxin
Director

Professor Gu Hanqing
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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For the year ended 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

	Share capital RMB	Share premium RMB	Accumulated losses RMB	Capital reserve RMB (Notes)	Total RMB
Balance as at 1 January 2001	30,000,000	—	(9,937,118)	3,081,404	23,144,286
Loss attributable to shareholders	—	—	(9,856,336)	—	(9,856,336)
Balance as at 31 December 2001	30,000,000	—	(19,793,454)	3,081,404	13,287,950
Issue of shares (Note 26)	10,000,000	93,938,800	—	—	103,938,800
Share issue expenses	—	(31,906,849)	—	—	(31,906,849)
Adjustment to value of assets contributed by minority shareholders	—	—	—	(540,000)	(540,000)
Loss attributable to shareholders	—	—	(13,848,847)	—	(13,848,847)
Balance as at 31 December 2002	40,000,000	62,031,951	(33,642,301)	2,541,404	70,931,054

Notes

Analysis of capital reserve

	RMB
Share of post-acquisition capital reserve in a subsidiary	144,404
Effect of reorganisation in 2000 (Note (a))	2,937,000
Adjustment to value of assets contributed by minority shareholders in 2002 (Note (b))	(540,000)
	2,541,404

- (a) As required by the relevant the People's Republic of China (the "PRC") laws and regulations relating to reorganisation involving state-owned assets, the equity interests in Tianjin Alpha Health Care Products Co., Ltd. ("Alpha") and the net assets of the Tianjin TEDA Institute of Biomaterials and Medical Engineering and Tianjin TEDA Bainuodai Biomedical Engineering Company Limited (collectively referred to as "Predecessor Entities") were transferred to the Company, in exchange for shares pursuant to a group reorganisation described in Note 1 to the accounts below, at their appraised values of RMB5,953,600 as at 31 March 2000. The appraisal was performed by a professional and independent PRC appraiser ("PRC appraiser").

The total amount of the nominal value of the shares of the Predecessor Entities and the historical cost of investment in Alpha was RMB12,500,000. An amount of RMB6,546,400, representing the difference between the nominal value of the shares of RMB5,953,600 issued by the Company and the amount of RMB12,500,000 mentioned above, has been recorded in the capital reserve account of the Group.

Three proprietary technologies of TTII amounting to RMB5,454,400 were transferred to the Company in exchange for the Company's 54,544,000 domestic shares of RMBO.1 each. The transfer value was determined based on the appraisal performed by a PRC appraiser. However, with reference to the appraisal done by a professional and independent appraiser with qualifications recognised internationally (the "international appraiser") on one of the proprietary technologies, and the acquisition costs of the other two proprietary technologies which were acquired by TTII from independent parties, the total value of the three proprietary technologies would be RMB1,845,000, which differs from the valuation of the PRC appraiser. The difference of RMB3,609,400 has been recorded as a deduction to the capital reserve account of the Group.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

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Tianjin TEDA Biomedical Engineering Company Limited

- (b) During the year, three proprietary technologies of minority shareholders of Beijing TEDAX² Medical Engineering Company Limited ("TEDAX²") at appraised value of RMB5,648,800 were transferred to TEDAX² in exchange for its share capital of RMB4,900,000.

The appraised value of RMB5,648,800 was determined based on the appraisal performed by a PRC appraiser. However, with reference to the appraisal done by the international appraiser on these proprietary technologies, the total value would be RMB4,000,000, which has a difference in amount of RMB900,000 from the nominal value of the share issued by TEDAX² to the minority shareholders. An amount of RMB540,000, which represents the Group's 60% share of the difference of RMB900,000, has been recorded as a deduction to the capital reserve account of the Group.

STATEMENT OF CHANGES IN EQUITY

Annual Report 2002

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For the year ended 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

	Share capital RMB	Share premium RMB	Accumulated losses RMB	Capital reserve RMB (Note)	Total RMB
Balance as at 1 January 2001	30,000,000	—	(8,299,779)	(2,312,483)	19,387,738
Loss attributable to shareholders	—	—	(8,632,523)	—	(8,632,523)
Balance as at 31 December 2001	30,000,000	—	(16,932,302)	(2,312,483)	10,755,215
Issue of shares (Note 26)	10,000,000	93,938,800	—	—	103,938,800
Share issue expenses	—	(31,906,849)	—	—	(31,906,849)
Loss attributable to shareholders	—	—	(11,262,023)	—	(11,262,023)
Balance as at 31 December 2002	40,000,000	62,031,951	(28,194,325)	(2,312,483)	71,525,143

Note

Details of the capital reserve account representing the effect of the reorganisation are summarised below:

As described in Note (a) in the consolidated statement of changes in equity above, as required by the relevant PRC laws and regulations relating to reorganisation involving state-owned assets, the equity interests in Alpha and the net assets of the Predecessor Entities were transferred to the Company, in exchange for shares pursuant to the group reorganisation at their appraised values of RMB5,953,600 as at 31 March 2000. The appraisal was performed by the PRC appraiser.

The total net asset value of the Predecessor Entities and Alpha to the Company as at 31 March 2000 was RMB7,250,517. An amount of RMB 1,296,917, representing the difference between the nominal value of the shares of RMB5,953,600 issued by the Company and the amount of RMB7,250,517 mentioned above, has been recorded in the capital reserve account of the Company.

An amount of RMB3,609,400 representing the difference in valuation of three proprietary technologies by the PRC appraiser and the international appraiser has been recorded as a deduction to the capital reserve account of the Company. Details of it have been described in Note (a) in the consolidated statement of changes in equity above.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002 (Amounts expressed in Renminbi ("RMB"))

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Tianjin TEDA Biomedical Engineering Company Limited

	Note	2002 RMB	As restated 2001 RMB
OPERATING ACTIVITIES			
Net cash used in operations	27(a)	(22,192,298)	(15,232,627)
Interest paid		(1,248,771)	(970,523)
Interest received		543,054	130,559
Net cash outflow from operating activities		(22,898,015)	(16,072,591)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(4,689,446)	(5,045,655)
Sale of property, plant and equipment		832	32,001
Acquisition of subsidiaries, net of cash acquired	27(b)	357,439	—
Net cash outflow from investing activities		(4,331,175)	(5,013,654)
Net cash outflow before financing		(27,229,190)	(21,086,245)
FINANCING ACTIVITIES			
Issue of ordinary shares	27(c)	103,938,800	—
Share issue expenses		(22,952,558)	—
Increase in prepayments of listing expenses		—	(5,006,397)
Increase in restricted deposit		(24,935,850)	—
Additions of short-term bank borrowings		26,500,000	31,000,000
Repayments of short-term bank borrowings		(22,700,000)	(11,000,000)
Capital injection by a minority shareholder of Tianjin Wan Tai Bio-Development Company Limited ("Wan Tai")		—	100,000
Net cash inflow from financing activities		59,850,392	15,093,603
Increase/(Decrease) in cash and cash equivalents		32,621,202	(5,992,642)
Cash and bank balances at 1 January		7,906,435	13,899,077
Cash and bank balances at 31 December		40,527,637	7,906,435

1 GROUP REORGANISATION

Tianjin TEDA Biomedical Engineering Company Limited (the "Company") was established and registered in the PRC under the Company Law of the PRC as a joint stock company with limited liability on 8 September 2000. The Company is a subsidiary of TTII, a state-owned enterprise established in the PRC. On 18 June 2002, the Company's shares were listed on the Growth Enterprise Market (the "GEM"). The Company and its subsidiaries are collectively referred to as the "Group".

Pursuant to a group reorganisation on 8 September 2000 (the "Reorganisation"), the Company acquired from TTII a 75% equity interest in the registered capital of Alpha, the entire businesses, operations and all of the assets and assumed all of the liabilities of Predecessor Entities. Details of the Reorganisation are set out in the prospectus of the Company dated 10 June 2002 (the "Prospectus").

2 CHANGE OF COMPANY NAME

Pursuant to a special resolution passed on 24 May 2002, the name of the Company was changed from Tianjin TEDA Bio-Tech Company Limited to Tianjin TEDA Biomedical Engineering Company Limited. The change of the Company's name was approved by the Administration of Commerce and Industry of Tianjin on 24 May 2002.

3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

As described in the Prospectus, the transactions in connection with the Reorganisation were entered into among entities and companies under the common control of TTII; accordingly, the Reorganisation has been accounted for on the basis of merger accounting. Under the merger accounting method, the consolidated accounts have been prepared as if the Company had always been the holding company of the Group.

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention.

In the current year, the Group adopted the following revised Statements of Standard Accounting Practice ("HKSSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP1 (revised)	:	Presentation of financial statements
SSAP11 (revised)	:	Foreign currencies translation
SSAP15 (revised)	:	Cash flow statements
SSAP34 (revised)	:	Employee benefits

The Group has also adopted SSAP35 "Accounting for government grants and disclosure of government assistance", which is effective for accounting periods commencing on or after 1 July 2002, in advance of its effective date.

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(a) Basis of preparation *(Continued)*

The adoption of these new or revised accounting standards in this year did not have effect on the accounts for the year ended 31 December 2002 except for the reclassification of cash flows presented in the cash flow statement into operating, investing and financing activities and the presentation of statement of changes in equity.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast the majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired of during the year are included in the consolidated profit and loss account from the effective dates of acquisitions.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) Intangibles

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the Group's share of the fair value of the net assets of the acquired subsidiaries at the date of acquisition.

Goodwill on acquisitions is recognised as an intangible asset and is stated at cost less accumulated amortisation and any impairment losses and is amortised using the straight-line method over its estimated useful life of 20 years.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(c) Intangibles *(Continued)*

(ii) Research and development costs

(a) Acquisition of proprietary technologies

Expenditures for acquisition of proprietary technologies, either separately or as part of a business combination, are recognised as intangible assets only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the costs of the assets can be measured reliably; otherwise, they are charged to the profit and loss account in the period in which they are incurred.

Proprietary technologies acquired as part of business combination are stated at their fair values at the date of acquisition less accumulated amortisation and any impairment losses.

The proprietary technologies acquired separately are stated at cost less accumulated amortisation and any impairment losses.

(b) Research and development activities

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 have 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.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(d) Property, plant and equipment

(i) Property, plant and equipment

Property, plant and equipment comprising buildings and renovations, plant and machinery, motor vehicles and furniture, fixtures and equipment, are stated at cost less accumulated depreciation and impairment losses.

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Property, plant and equipment *(Continued)*

(ii) Depreciation

Renovations are depreciated over the shorter period of the unexpired term of the leases or the estimated useful lives while other property, plant and equipment are depreciated at rates sufficient to write off their costs less any accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	5% - 14%
Plant and machinery	6.67% - 33.33%
Motor vehicles	20%
Furniture, fixtures and equipment	20%

(iii) Construction-in-progress

Construction-in-progress represents machinery pending installation. Construction-in-progress is stated at cost, which includes construction expenditures, installation and other direct costs capitalised during the construction period. Construction-in-progress is transferred to property, plant and equipment when it is completed and available for its intended use.

No depreciation is provided for construction-in-progress.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in property, plant and equipment and construction-in-progress are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(e) Government grants

A government grant is initially recognised as deferred income, when until there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Grants relating to assets are recognised in the account, on a systematic basis over the useful life of the assets.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(g) Inventories

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Provision is made for obsolete, slow-moving or defective items where appropriate.

(h) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such a provision.

(i) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Employee benefits

(i) *Employee leave entitlements*

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

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Employee benefits *(Continued)*

(ii) Bonus plans

The expected costs of bonus payments are recognised as liabilities when the Group has present legal or constructive obligations as a result of services rendered by employees and reliable estimates of the obligations can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension costs

Pension costs are accounted for on an accrual basis.

(l) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of an obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income is recognised when services are rendered.

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

Preferential benefits from the government are recognised on cash basis.

(o) Borrowing costs

All borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

4 TURNOVER, REVENUE AND SEGMENT INFORMATION

- (a) The Group is principally engaged in investment holding, research, development, manufacturing, marketing and sales of biomedical equipment and biomaterials (collectively referred to as "other medical and health products") and diabetic health products. Revenues recognised during the year are as follows:

	2002 RMB	2001 RMB
Sales of goods		
- Diabetic health products	24,631,221	20,059,318
- Other medical and health products	5,131,506	5,466,199
	29,762,727	25,525,517
Service income		
- Other medical and health products	668,368	—
Total turnover	30,431,095	25,525,517
Other revenues		
- Bank interest income	543,054	130,559
- Others		
Value-added tax refund (Note)	340,735	—
Government financial subsidy (Note)	300,000	—
Others	15,975	—
	1,199,764	130,559
Total revenues	31,630,859	25,656,076

Note

Pursuant to "Provisions of Tianjin Economic Technological Development Area on the Promotion of Development of New and High Technology Enterprise" (天津經濟技術開發區關於促進高新技術產業發展的規定) (the "Provisions"), the Company and Alpha are entitled to certain preferential benefits based on the conditions stipulated in the Provisions. During the year, the Group was granted tax refund of RMB340,735 for the value-added tax ("VAT") previously paid. In addition, the Company received an one-off government financial subsidy of RMB300,000 after its successful listing on the GEM.

NOTES TO THE ACCOUNTS

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

4 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format - business segments

The Group is organised into two main business segments which are diabetic health products and other medical and health products.

There are no sales or other transactions between the business segments.

	Diabetic health products 2002 RMB	Other medical and health products 2002 RMB	Total 2002 RMB
Segment revenues	24,911,225	6,176,580	31,087,805
Segment results	(983,055)	(12,280,693)	(13,263,748)
Unallocated income			543,054
Operating loss			(12,720,694)
Finance costs			(1,248,771)
Loss before taxation			(13,969,465)
Taxation			—
Loss after taxation			(13,969,465)
Minority interests			120,618
Loss attributable to shareholders			(13,848,847)
Segment assets	27,483,537	88,211,980	115,695,517
Unallocated assets			1,355,116
Total assets			117,050,633
Segment liabilities	4,247,415	9,362,767	13,610,182
Unallocated liabilities			27,600,000
Total liabilities			41,210,182
Capital expenditure	1,404,308	7,908,074	9,312,382
Depreciation	954,840	841,170	1,796,010
Amortisation of goodwill on consolidation	233,585	29,098	262,683
Amortisation charge	—	366,564	366,564
Loss on disposal of property, plant and equipment	39,163	—	39,163
Bad debts and provision for doubtful debts	615,725	2,025	617,750
Inventory obsolescence and write-off	1,126,968	—	1,126,968

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

4 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Primary reporting format - business segments *(Continued)*

	Diabetic health products 2001 RMB	Other medical and health products 2001 RMB	Total 2001 RMB
Segment revenues	20,059,318	5,466,199	25,525,517
Segment results	(1,098,194)	(7,926,446)	(9,024,640)
Unallocated income			130,559
Operating loss			(8,894,081)
Finance costs			(970,523)
Loss before taxation			(9,864,604)
Taxation			—
Loss after taxation			(9,864,604)
Minority interests			8,268
Loss attributable to shareholders			(9,856,336)
Segment assets	21,339,160	22,172,931	43,512,091
Unallocated assets			—
Total assets			43,512,091
Segment liabilities	4,738,386	25,394,023	30,132,409
Unallocated liabilities			—
Total liabilities			30,132,409
Capital expenditure	3,611,598	1,434,057	5,045,655
Depreciation	824,004	304,377	1,128,381
Amortisation of goodwill on consolidation	231,021	—	231,021
Loss on disposal of property, plant and equipment	63,709	—	63,709
Bad debts and provision for doubtful debts	350,649	1,608,140	1,958,789
Inventory obsolescence and write-off	219,342	65,492	284,834

4 TURNOVER, REVENUE AND SEGMENT INFORMATION *(Continued)*

(c) Secondary reporting format - geographical segments

No geographical segment information is presented because the business activities of the Group are mainly operated in the PRC.

5 OPERATING LOSS

Operating loss is stated after crediting and charging the following:

	2002 RMB	2001 RMB
CREDITING		
Exchange gain, net	2,619	—
CHARGING		
Operating leases - land and buildings	1,660,284	1,191,462
Staff costs (including emoluments of directors and supervisors (Note 12(a)) and pension costs (Note 11(a)))	9,585,881	6,188,610
Loss on disposal of property, plant and equipment	39,163	63,709
Depreciation of property, plant and equipment	1,796,010	1,128,381
Amortisation of proprietary technologies	366,564	—
Bad debts and provision for doubtful debts	617,750	1,958,789
Advertising and marketing expenses	5,568,846	5,995,879
Travelling expenses	3,129,859	2,114,803
Technical support charges	612,333	690,180
Inventory obsolescence and write-off	1,126,968	284,834
Legal and professional consulting service fees	521,110	307,500
Auditors' remuneration	1,217,930	90,000
Cost of inventories	13,721,039	10,457,083

6 FINANCE COSTS

	2002 RMB	2001 RMB
Interest expense on short-term bank borrowings	1,248,771	970,523

7 TAXATION

(a) Enterprise income tax ("EIT")

The Company, being a joint stock company with limited liability in the PRC, is subject to 30% state income tax and 3% local income tax.

Alpha, being a Sino-foreign joint-venture enterprise in the PRC ("Sino-foreign EJV"), is subject to 30% state income tax and 3% local income tax. However, in accordance with the relevant tax rules and regulations applicable to Sino-foreign EJVs in the PRC, Alpha, as a Sino-foreign EJV located in Tianjin Economic Technological Development Area ("TEDA"), shall be eligible for state income tax at a reduced rate of 15%. It is also entitled to exemption from state income tax for two years commencing from the first profit-making year after offsetting prior years' losses, followed by a 50% reduction of state income tax for the next three years thereafter. In addition, Alpha shall enjoy exemption from 3% local income tax during its actual operational period in TEDA.

Wan Tai, being a limited company in the PRC, is subject to 30% state income tax and 3% local income tax.

TEDAX² and Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Beijing Xinxing"), being limited liability companies in the PRC, are subject to 30% state income tax and 3% local income tax. However, according to the relevant tax regulations, new and high technology enterprises operating in Beijing New and High Technology Development Provisional Zone ("BNHTDPZ") are entitled to a reduced EIT rate of 15%. TEDAX² and Beijing Xinxing are recognised as new and high technology enterprises and are registered in the BNHTDPZ. Accordingly, TEDAX² and Beijing Xinxing are subject to state income tax at a reduced rate of 15%. In addition, TEDAX² and Beijing Xinxing shall enjoy exemption from 3% local income tax during its actual operational period in BNHTDPZ.

TEDAX² is also entitled to exemption for state income tax for two years commencing from the first profit-making year after offsetting prior years' losses, followed by a 50% reduction of state income tax for the next three years thereafter.

There was no assessable profit generated by the Group, except for Alpha. As described above, Alpha was exempted from EIT for the year ended 31 December 2002 (being the first profit-making year). As a result, no provision for EIT has been made during the year.

(b) Deferred taxation

The Group and the Company did not have significant unprovided deferred taxation as at 31 December 2001 and 2002 and for the years then ended.

(c) VAT

The Group and the Company are subject to VAT which is currently the principal indirect tax on the sale of tangible goods. The general VAT rate applicable to the Group and the Company is 17%. An input credit is available whereby VAT previously paid on purchases of materials used for production of the tangible goods can be used to offset the VAT on sales to determine the net VAT balance.

8 LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB11,262,023 (2001: RMB8,632,523).

9 DIVIDEND

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

10 LOSS PER SHARE

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of RMB13,848,847 (2001: RMB9,856,336).

The basic loss per share is based on the weighted average of 350,000,000 (2001: 300,000,000) ordinary shares in issue during the year.

Diluted loss per share is not presented as there are no dilutive potential shares.

11 PENSION COSTS

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency calculated at the rates set by the provincial governments on the employees' actual salaries. The applicable rate for the Company and Wan Tai is 26%, of which 20% is borne by the companies and the remainder is borne by the staff. The applicable rate for Alpha is 31%, of which 25% is borne by Alpha and the remainder is borne by the staff. The applicable rate for Beijing Xinxing is 25%, of which 19% is borne by Beijing Xinxing and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

The Group provides neither pensions nor termination benefits other than those described below.

(a) Details of pension costs included in staff costs during the year are as follows:

	2002 RMB	2001 RMB
Pension costs	1,027,503	735,087

NOTES TO THE ACCOUNTS

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Tianjin TEDA Biomedical Engineering Company Limited

11 PENSION COSTS *(Continued)*

(b) Included in other payables and accruals is provision for pension costs as follows:

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Provision for pension costs	667,419	410,727	404,986	159,468

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	2002 RMB	2001 RMB
Directors' fees	180,000	—
Salaries, housing and other allowances	1,001,623	411,720
Discretionary performance bonuses	—	188,740
Pension	58,743	43,122
	1,240,366	643,582

The number of directors and supervisors whose emoluments fell within the following bands:

	2002	2001
Nil - RMB1,000,000	17	17
Over RMB1,000,001	—	—
	17	17

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(Continued)*

(a) Directors' and supervisors' emoluments *(Continued)*

Details of emoluments of individual directors and supervisors are set out as below:

	2002 RMB	2001 RMB
Executive director	151,477	142,517
Another executive director	97,500	38,275
Another executive director	355,006	140,853
Another executive director	157,776	134,539
Another executive director	45,600	44,475
A supervisor	30,477	24,911
Another supervisor	141,276	118,012
Another supervisor	20,000	—
A non-executive director	30,000	—
Another 3 non-executive directors	131,254	—
An independent non-executive director	30,000	—
Another independent non-executive director	N/A*	—
Another independent non-executive director	10,000	—
Another independent non-executive director	—	N/A*
2 independent supervisors	40,000	—
	1,240,366	643,582

* Not a director during the respective years.

NOTES TO THE ACCOUNTS

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Tianjin TEDA Biomedical Engineering Company Limited

12 EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2001: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2001: one) individuals during the year are as follows:

	2002 RMB	2001 RMB
Salaries, housing and other allowances	1,345,030	874,515
Discretionary performance bonuses	—	—
	1,345,030	874,515

The number of the five highest paid individuals who were not directors or supervisors whose emoluments fell within the following bands:

	2002	2001
Nil - RMB1,000,000	2	1
Over RMB1,000,001	—	—

- (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 (2001: Nil).

None of the directors and supervisors waived any emoluments during the year (2001: Nil).

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

13 PROPERTY, PLANT AND EQUIPMENT

Group

	*Building and renovations RMB	Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures and equipment RMB	Construction- in-progress RMB	Total RMB
Cost						
At 1 January 2002	4,395,251	6,149,582	1,312,434	1,198,042	—	13,055,309
Additions	464,816	708,179	2,520,248	983,182	13,021	4,689,446
Acquisitions of subsidiaries						
(Note 27(b))	—	—	—	222,936	—	222,936
Reclassification	—	(40,000)	—	40,000	—	—
Disposals	—	(133,658)	—	(4,000)	—	(137,658)
At 31 December 2002	4,860,067	6,684,103	3,832,682	2,440,160	13,021	17,830,033
Accumulated depreciation						
At 1 January 2002	252,621	707,953	486,157	209,652	—	1,656,383
Charge for the year	550,791	683,245	289,100	272,874	—	1,796,010
Acquisitions of subsidiaries						
(Note 27(b))	—	—	—	85,942	—	85,942
Reclassification	—	(4,500)	—	4,500	—	—
Disposals	—	(94,063)	—	(3,600)	—	(97,663)
At 31 December 2002	803,412	1,292,635	775,257	569,368	—	3,440,672
Net book value						
At 31 December 2002	4,056,655	5,391,468	3,057,425	1,870,792	13,021	14,389,361
At 31 December 2001	4,142,630	5,441,629	826,277	988,390	—	11,398,926

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

13 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Company

	*Building and renovations RMB	Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures and equipment RMB	Construction- in-progress RMB	Total RMB
Cost						
At 1 January 2002	1,875,137	1,946,748	176,932	775,927	—	4,774,744
Additions	173,500	172,929	1,310,810	417,516	13,021	2,087,776
At 31 December 2002	2,048,637	2,119,677	1,487,742	1,193,443	13,021	6,862,520
Accumulated depreciation						
At 1 January 2002	140,116	38,925	120,471	135,636	—	435,148
Charge for the year	206,225	243,972	136,757	164,364	—	751,318
At 31 December 2002	346,341	282,897	257,228	300,000	—	1,186,466
Net book value						
At 31 December 2002	1,702,296	1,836,780	1,230,514	893,443	13,021	5,676,054
At 31 December 2001	1,735,021	1,907,823	56,461	640,291	—	4,339,596

* The Group's and the Company's building is held outside Hong Kong under a medium-term lease.

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

14 PROPRIETARY TECHNOLOGIES

	Group RMB
Cost	
Arising from acquisitions of subsidiaries (Note 27(b))	4,400,000
At 31 December 2002	4,400,000
Accumulated amortisation	
Charge for the year	366,564
At 31 December 2002	366,564
Carrying value	
At 31 December 2002	4,033,436

15 GOODWILL ON CONSOLIDATION

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

	Group RMB
Cost	
At 1 January 2001 and 2002	4,436,412
Arising from acquisitions of subsidiaries (Note 27(b))	1,396,692
At 31 December 2002	5,833,104
Accumulated amortisation	
At 1 January 2001	370,704
Charge for the year	231,021
At 31 December 2001	601,725
Charge for the year	262,683
At 31 December 2002	864,408
Carrying value	
At 31 December 2002	4,968,696
At 31 December 2001	3,834,687

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

16 INTERESTS IN SUBSIDIARIES

	Company	
	2002 RMB	2001 RMB
Unlisted investments, at cost	9,435,172	1,035,172
Amounts due from subsidiaries	17,189,000	13,549,179
	26,624,172	14,584,351

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

The following is a list of the subsidiaries at 31 December 2001 and 2002:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operation	Registered capital	Interests held 2002	Interests held 2001
Tianjin Alpha Health Care Products Co., Ltd.	The PRC 15 August 1994, Sino-foreign joint- venture enterprise	Manufacturing and distribution of diabetic health food and related products in the PRC	RMB3,600,000	75%	75%
Tianjin Wan Tai Bio-Development Company Limited	The PRC 3 September 2001, limited liability company	Trading in biomedical equipment and biomaterials in the PRC	RMB1,000,000	90%	90%
Beijing TEDAX ² Medical Engineering Company Limited	The PRC 17 December 2001, limited liability company	Investment holding and holder of proprietary technologies	RMB14,000,000	60%	N/A
Beijing Xinxing Bio-medical Engineering Research and Development Institute	The PRC 23 June 1995 limited liability company	Manufacturing and distribution of biomedical equipment in the PRC	RMB1,000,000	*60%	N/A

* Shares held indirectly by the Company.

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

NOTES TO THE ACCOUNTS

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

16 INTERESTS IN SUBSIDIARIES *(Continued)*

In August 2002, the Company acquired 60% equity interest in TEDAX² and its wholly owned subsidiary, Beijing Xinxing.

- (a) The effect of the acquisitions of these subsidiaries on financial results of the Group for the year ended 31 December 2002 is as follows:

	RMB
Turnover	2,811,196
Cost of sales	(1,447,114)
Gross profit	1,364,082
Other revenues	12,793
Distribution and selling expenses	(971,656)
Administrative expenses	(1,309,151)
Research and development expenses, net of government grant of RMB803,856	—
Amortisation of goodwill on consolidation	(29,098)
Operating loss	(933,030)
Finance costs	(67,814)
Loss before taxation	(1,000,844)
Taxation	—
Loss after taxation	(1,000,844)
Minority interests	43,295
Increase in loss attributable to shareholders	(957,549)

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

16 INTERESTS IN SUBSIDIARIES *(Continued)*

- (b) The effect of the acquisitions of these subsidiaries on the financial position at 31 December 2002 is as follows:

	RMB
Property, plant and equipment	1,234,195
Proprietary technologies	4,033,436
Goodwill on consolidation	1,367,594
Inventories	3,094,543
Trade receivables	2,080,953
Prepayments and other receivables	1,213,249
Value-added tax recoverable	6,499
Due from minority shareholders	259,350
Cash and bank balances	6,059,896
Trade payables	(238,095)
Other payables and accruals	(374,761)
Government grants receipt in advance	(1,852,008)
Value-added tax payable	(117,412)
Trade deposit receipt from Wan Tai, a fellow subsidiary	(370,000)
Short-term bank borrowings	(2,600,000)
Current portion of non-current liabilities	(1,300,000)
Non-current liabilities	(700,000)
Minority interests	(4,894,988)
Capital reserve	540,000
	7,442,451
Purchase consideration	(8,400,000)
	(957,549)

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

17 INVENTORIES

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Raw materials	2,930,456	741,254	767,590	373,848
Work-in-progress	933,044	435,564	156,183	—
Finished goods	2,589,278	154,792	348,964	84,803
Packaging materials	1,821,527	6,447	751,668	1,892
Total at cost	8,274,305	1,338,057	2,024,405	460,543
Less: Provision for inventory obsolescence	(81,092)	(81,092)	(108,190)	(81,092)
	8,193,213	1,256,965	1,916,215	379,451

Included in total inventories are inventories of RMB81,092 (2001: RMB108,190) that are stated at net realisable value.

18 TRADE RECEIVABLES

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Trade receivables	12,091,575	2,064,582	8,031,252	1,969,551
Less: Provision for doubtful debts	(2,597,298)	(1,608,140)	(1,978,709)	(1,608,140)
	9,494,277	456,442	6,052,543	361,411

NOTES TO THE ACCOUNTS

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Tianjin TEDA Biomedical Engineering Company Limited

18 TRADE RECEIVABLES *(Continued)*

The Group and the Company generally grant credit terms of 90 days to their customers, but for certain major customers, the Group and the Company may extend the credit terms to 120 days. An ageing analysis of trade receivables as at 31 December 2002 is as follows:

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Within 1 month	2,995,338	392,735	1,192,314	—
Between 1 to 2 months	2,131,375	111,422	1,227,767	—
Between 2 to 3 months	1,565,784	6,000	795,090	411
Between 3 to 6 months	2,765,678	30,564	3,376,882	710,500
Over 6 months	2,633,400	1,523,861	1,439,199	1,258,640
	12,091,575	2,064,582	8,031,252	1,969,551

19 PREPAYMENTS AND OTHER RECEIVABLES

Included in prepayments and other receivables are:

- (a) an amount of Hong Kong Dollars ("HK\$") 3,000,000 paid to an independent party for the Company's marketing activities. In December 2002, the Company entered into an agreement with BCT Global Development Limited ("BCT") to market Alpha's diabetic health products in Southeast Asia. In accordance with the agreement, the amount was paid to another independent party, Perennial Assets Limited ("PAL"), a related party of BCT. Any expenditure incurred by BCT for the Company's marketing activities will be reimbursed by PAL accordingly on behalf of the Company. No related expenditure has been incurred during the year and up to the date of these accounts;
- (b) an amount of RMB300,000 prepaid in December 2002 to a director as her living allowances for the next three years ending 31 December 2003, 2004 and 2005 following the transfer of her office from Tianjin to Beijing.

20 BALANCES WITH RELATED PARTIES

The balances with TTII, the minority shareholders of a subsidiary and the sole investor of TTII are unsecured, non-interest bearing and have no fixed repayment terms.

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

21 DUE FROM/TO DIRECTORS

Details of the amount due from a director of the Group and the Company as at 31 December 2002 are set out below:

	2002		2001	
	Amount outstanding at 31 December RMB	Maximum amount outstanding during the year ended 31 December RMB	Amount outstanding at 31 December RMB	Maximum amount outstanding during the year ended 31 December RMB
An executive director	20,754	21,222	12,397	17,211

Details of the amounts due to directors of the Group and the Company as at 31 December 2002 are set out below:

	2002 RMB	2001 RMB
Executive directors	51,505	44,800

The amount due from a director mainly represents travelling advances. The amounts due to directors mainly represent payables in relation to directors' fees. The balances with directors are unsecured, non-interest bearing and have no fixed repayment terms.

22 RESTRICTED DEPOSIT

As described in Note 24, restricted deposit is a fixed bank deposit pledged to secure a short-term bank borrowing of RMB20,000,000.

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Tianjin TEDA Biomedical Engineering Company Limited

23 TRADE PAYABLES

Generally, the credit terms on the trade payables of the Group and the Company are 90 days. An ageing analysis of trade payables as at 31 December 2002 is as follows:

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Within 1 month	1,007,572	398,972	392,070	—
Between 1 to 2 months	175,406	4,529	275,061	—
Between 2 to 3 months	40,058	—	110,937	—
Between 3 to 6 months	176,844	2,450	670,708	611,530
Over 6 months	230,379	63,075	3,378	—
	1,630,259	469,026	1,452,154	611,530

24 SHORT-TERM BANK BORROWINGS

As at 31 December 2002, short-term bank borrowings of the Group and the Company were secured by a fixed deposit of RMB24,935,850 to the extent of RMB 20,000,000 (2001: Nil); the remaining bank borrowings were secured by corporate guarantees provided by the Company.

25 NON-CURRENT LIABILITIES

Non-current liabilities of the Group and the Company are unsecured and interest free.

The repayment schedules of the Group as at 31 December 2002 are analysed as below:

	TTII RMB (Notes (a) and (b))	Tianjin Institute of Urological Surgery RMB (Note (c))	Total RMB
Total payable	2,344,286	600,000	2,944,286
Less: Payable within one year	(1,644,286)	(600,000)	(2,244,286)
Non-current portion	700,000	—	700,000
Analysis of repayment schedule			
Payable in the second year	700,000	—	700,000
	700,000	—	700,000

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

25 NON-CURRENT LIABILITIES *(Continued)*

The repayment schedules of the Company as at 31 December 2002 are analysed as below:

	TTII RMB (Note (b))	Tianjin Institute of Urological Surgery RMB (Note (c))	Total RMB
Total payable	344,286	600,000	944,286
Less: Payable within one year	(344,286)	(600,000)	(944,286)
Non-current portion	—	—	—

The repayment schedules of the Group and the Company as at 31 December 2001 are analysed as below:

	TTII RMB (Note (b))	Tianjin Institute of Urological Surgery RMB (Note (c))	Professor Gu Hanqing RMB (Note (d))	Beijing Xinxing RMB	Total RMB
Total payable	500,000	600,000	1,320,000	400,000	2,820,000
Less: Payable within one year	(500,000)	(600,000)	(1,320,000)	(133,333)	(2,553,333)
Non-current portion	—	—	266,667	—	266,667
Analysis of repayment schedules					
Payable in the second year	—	—	133,333	—	133,333
Payable in the third year	—	—	133,334	—	133,334
	—	—	266,667	—	266,667

Notes

- (a) TTII advanced RMB2,000,000 to Beijing Xinxing as the working capital for daily operation, of which RMB1,300,000 will be repaid in next year and RMB700,000 will be repaid in 2004.
- (b) The amounts payable to TTII (excluding the balance described in Note (a) above) as at 31 December 2002 represent the liabilities incurred in connection with the acquisitions of two proprietary technologies from TTII pursuant to the Reorganisation.
- (c) As described in the Prospectus, the liability payable to Tianjin Institute of Urological Surgery, a research institute in Tianjin, was related to one proprietary technology purchased by TTII from this institute and, pursuant to the Reorganisation, transferred to the Group and the Company.

The current portion of liability of RMB600,000 was not repaid in 2002 according to the repayment schedules. However, Tianjin Institute of Urological Surgery agreed and confirmed that no penalty was charged to the Group and the Company for non-repayment during the year.

- (d) Professor Gu Hanqing is a director of the Company.

NOTES TO THE ACCOUNTS

(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

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Tianjin TEDA Biomedical Engineering Company Limited

26 SHARE CAPITAL

Details of the share capital as at 31 December 2002 are set out below:

	Registered, issued and fully paid	
	Number of ordinary shares	Amount RMB
Total domestic shares of RMB0.1 each at 1 January 2001 and 31 December 2001	300,000,000	30,000,000
Issue of overseas listed foreign invested shares ("H Shares") of RMB0.1 each upon listing on the GEM on 18 June 2002	100,000,000	10,000,000
Total domestic shares and H Shares of RMB0.1 each at 31 December 2002	400,000,000	40,000,000

TTII, as the main promoter, together with the other five promoters entered into a promoters' agreement on 8 August 2000 for the establishment of the Company as a joint stock company with limited liability under the Company Law of the PRC. Pursuant to the Reorganisation, the Company's registered capital of RMB30,000,000 was fully paid-up as at 8 September 2000.

Pursuant to a special resolution passed on 25 May 2002, the registered ordinary share capital of the Company was increased from RMB30,000,000 to RMB40,000,000 by the creation of 100,000,000 shares of RMB 0.1 each.

On 18 June 2002, the Company issued 100,000,000 H Shares of nominal value of RMB0.1 each, for a consideration of HK\$0.98 per H Share.

Domestic shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in RMB. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H Shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

27 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash used in operations:

	2002 RMB	2001 RMB
Cash flows from operating activities:		
Loss before taxation	(13,969,465)	(9,864,604)
Provision for doubtful debts	618,589	1,813,779
(Write back)/Provision for inventory obsolescence	(27,098)	92,590
Depreciation	1,796,010	1,128,381
Loss on disposal of property, plant and equipment	39,163	63,709
Interest expense	1,248,771	970,523
Interest income	(543,054)	(130,559)
Amortisation of proprietary technologies	366,564	—
Amortisation of goodwill on consolidation	262,683	231,021
Operating loss before working capital changes	(10,207,837)	(5,695,160)
Increase in inventories	(3,185,263)	(463,471)
Increase in trade receivables	(3,206,173)	(2,190,152)
Increase in prepayments and other receivables	(3,904,895)	(2,298,695)
Increase in value-added tax recoverable	(233,323)	—
Increase in due from TTII	(267,501)	(828,765)
Increase in due from a director	(8,357)	(12,397)
Increase in due from minority shareholders of a subsidiary	(301,370)	—
Decrease in trade payables	(393,980)	(339,910)
Increase in other payables and accruals	146,985	2,637,108
Increase in government grants receipt in advance	1,096,144	—
Decrease in value-added tax payable	(4,779)	(264,496)
Decrease in due to TTII	—	(1,836,089)
Increase in due to directors	6,705	44,800
Increase in due to the sole investor of TTII	147,060	—
Decrease in non-current liabilities	(1,875,714)	(3,985,400)
Net cash used in operations	(22,192,298)	(15,232,627)

NOTES TO THE ACCOUNTS

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Tianjin TEDA Biomedical Engineering Company Limited

27 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Acquisitions of subsidiaries

In August 2002, the Group acquired 60% equity interest in TEDAX² and its wholly owned subsidiary, Beijing Xinxing.

	2002 RMB
Net assets acquired	
Property, plant and equipment (Note 13)	136,994
Proprietary technologies (Note 14)	4,400,000
Inventories	3,064,637
Trade receivables	854,150
Prepayments and other receivables	2,373,207
Value-added tax recoverable	12,536
Cash and bank balances	8,757,439
Due to minority shareholders	(42,020)
Trade payables	(572,085)
Other payables and accruals	(1,915,285)
Government grants receipt in advance	(755,864)
Value-added tax payable	(112,118)
Short-term bank borrowings (Note 27(c))	(2,800,000)
Current portion of non-current liabilities	(1,300,000)
Non-current liabilities	(700,000)
Minority interests (Note 27(c))	(4,938,283)
	6,463,308
Goodwill (Note 15)	1,396,692
Capital reserve (Note 27(c))	540,000
	8,400,000
Satisfied by	
Cash	8,400,000

Analysis of the net cash inflow in respect of the acquisitions of subsidiaries:

	2002 RMB
Cash consideration	(8,400,000)
Cash and bank balances acquired	8,757,439
Net cash inflow in respect of the acquisitions of subsidiaries	357,439

NOTES TO THE ACCOUNTS

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

27 CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Analysis of changes in financing during the year

	2002									2001
	Share Capital RMB	Capital reserve RMB	Share premium RMB	Restricted deposit RMB	Minority interests RMB	Share issue expenses RMB	Prepayments of listing expenses RMB	Short-term bank borrowings RMB	Total RMB	Total RMB
At 1 January	30,000,000	3,081,404	—	—	91,732	—	(8,954,291)	21,000,000	45,218,845	30,133,510
Cash (outflows)/inflows	—	—	—	(24,935,850)	—	(22,952,558)	—	3,800,000	(44,088,408)	14,993,603
Issue of shares	10,000,000	—	93,938,800	—	—	—	—	—	103,938,800	—
Share issue expenses	—	—	(31,906,849)	—	—	22,952,558	8,954,291	—	—	—
Acquisitions of subsidiaries (Note 27(b))	—	—	—	—	—	—	—	2,800,000	2,800,000	—
Adjustment to value of assets contributed by minority shareholders (Note 27(b))	—	(540,000)	—	—	—	—	—	—	(540,000)	—
Capital injection by minority shareholders (Note 27(b))	—	—	—	—	4,938,283	—	—	—	4,938,283	100,000
Minority interests' share of loss	—	—	—	—	(120,618)	—	—	—	(120,618)	(8,268)
At 31 December	40,000,000	2,541,404	62,031,951	(24,935,850)	4,909,397	—	—	27,600,000	112,146,902	45,218,845

28 DISTRIBUTION OF PROFITS

In accordance with the relevant laws and regulations of the PRC and the Company's articles of association, the Company is required to appropriate 10% and 5% to 10% respectively of its profit after tax but before dividend distribution, determined based on the financial statements prepared in accordance with PRC accounting standards and regulations or HKSSAP, whichever shows lower profit after taxation, after offsetting any prior years' losses, to the statutory surplus reserve and the statutory public welfare fund.

When the balance of the statutory surplus reserve reaches 50% of the Company's registered share capital, any further appropriation is optional. The statutory surplus reserve can be used to offset prior years' losses, if any, expand the business operation, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholding, provided that the balance after such an issue is not less than 25% of the registered share capital.

The statutory public welfare fund can only be utilised for the collective benefit of the Company's employees. Appropriation to the public welfare fund is recorded as profit appropriation and the balance of the fund as a reserve.

In addition, appropriation of profits to the discretionary surplus reserve can be made in accordance with the Company's articles of association and the recommendation of the board of directors and is subject to shareholders' approval at the general meeting.

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Tianjin TEDA Biomedical Engineering Company Limited

29 COMMITMENTS

(a) Capital commitments

- (i) As at 31 December 2002, the Group and the Company had the following significant capital commitments:

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Authorised and contracted for				
- Acquisition of plant and machinery	—	—	87,000	25,000
- Establishment of a new subsidiary (Note (a))	3,500,000	3,500,000	—	—
	3,500,000	3,500,000	87,000	25,000

- a. On 17 February 2003, a new subsidiary, Tianjin Yisheng Bioengineering Co., Ltd., which is engaged in the manufacturing and distribution of diabetic health food products, biomedical equipment and biomaterials and rendering related consultation services, was established. The Company has 70% equity interest in this newly established subsidiary. The Company's capital contribution of RMB3,500,000 was injected in cash on 9 February 2003.

29 COMMITMENTS *(Continued)*

(b) Operating lease commitments

(i) As at 31 December 2002, the Group and the Company had the following operating lease commitments:

- a. The Group and the Company had various non-cancellable operating lease agreements with independent third parties in respect of the rental of office premises amounting to approximately RMB1,399,000 (2001: RMB785,000) and RMB489,000 (2001: RMB553,000) respectively.

The total future minimum lease payments under non-cancellable operating leases are analysed as follows:

	2002		2001	
	Group RMB	Company RMB	Group RMB	Company RMB
Total future minimum lease payments payable:				
- not later than one year	1,320,000	489,000	565,000	485,000
- later than one year and not later than five years	79,000	—	220,000	68,000
	1,399,000	489,000	785,000	553,000

NOTES TO THE ACCOUNTS

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Tianjin TEDA Biomedical Engineering Company Limited

29 COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

(i) *(Continued)*

- b. The Group and the Company had a non-cancellable operating lease agreement, the lease terms of which were amended subsequently by two supplementary agreements in 2002, with TTII in respect of the rental of production premises amounting to RMB3,205,000 (2001: RMB1,039,000).

The total future minimum lease payments under the non-cancellable operating lease are analysed as follows:

	Group and Company	
	2002 RMB	2001 RMB
Total future minimum lease payments payable:		
- not later than one year	—	542,000
- later than one year and not later than five years	1,625,000	497,000
- more than five years	1,580,000	—
	3,205,000	1,039,000

Pursuant to the supplementary agreements, the rent-free period was extended from 31 December 2001 to 31 December 2004 and the monthly rental will be determined based on prevailing market price at the commencement of rent-pay period. The current year's operating lease rental expense and the above analysis of future minimum lease payments as at 31 December 2002 are calculated with reference to the current market rent of the area where the production premises is located.

29 COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

(i) *(Continued)*

- c. The Group had a non-cancellable operating lease agreement, the lease terms of which were amended subsequently by two supplementary agreements in 2002, with TTII in respect of the rental of office and production premises amounting to RMB2,567,000 (2001: RMB767,000).

The total future minimum lease payments under the non-cancellable operating lease are analysed as follows:

	Group	
	2002 RMB	2001 RMB
Total future minimum lease payments payable:		
- not later than one year	—	400,000
- later than one year and not later than five years	1,400,000	367,000
- more than five years	1,167,000	—
	2,567,000	767,000

Pursuant to the supplementary agreements, the rent-free period was extended from 30 June 2001 to 30 June 2004 and the monthly rental will be determined based on prevailing market price at the commencement of rent-pay period. The current year's operating lease rental expense and the above analysis of future minimum lease payments as at 31 December 2002 are calculated with reference to the current market rent of the area where the office and production premises are located.

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Tianjin TEDA Biomedical Engineering Company Limited

29 COMMITMENTS *(Continued)*

(b) Operating lease commitments *(Continued)*

(i) *(Continued)*

- d. The Group and the Company had a non-cancellable operating lease agreement with the sole investor of TTII in respect of the rental of production premises amounting to approximately RMB912,000 (2001: Nil).

The total future minimum lease payments under the non-cancellable operating lease are analysed as follows:

	Group and Company	
	2002 RMB	2001 RMB
Total future minimum lease payments payable:		
- not later than one year	353,000	—
- later than one year and not later than five years	559,000	—
	912,000	—

- e. The Group and the Company had an operating lease agreement for the rental of an apartment. The rental agreement was without fixed lease term and cancellable with a 20-day-notification given by the Group and the Company. The monthly rental payable by the Group and the Company amounted to RMB2,500.

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(Amounts expressed in Renminbi ("RMB") unless otherwise stated)

29 COMMITMENTS *(Continued)*

- (c) During the year, the Group entered into a technical support service agreement with an independent third party who has agreed to provide the Group with technical support services for the period from 28 August 2002 to 28 August 2004.

The total commitments in respect of this technical support service agreement are approximately RMB1,666,667 (2001: Nil).

Total technical support service fee payable are analysed as follows:

	Group	
	2002 RMB	2001 RMB
- Not later than one year	1,000,000	—
- Later than one year and not later than five years	666,667	—
	1,666,667	—

30 MATERIAL RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

Save as disclosed elsewhere in the accounts, during the year the Group had the following material transactions with related parties:

	2002 RMB	2001 RMB
Property management fee charged by TTII (Note (a))	182,497	—
Operating lease rental charged by the sole investor of TTII (Note (b))	147,060	—
Operating lease rental charged by TTII (Note (c))	766,157	668,376

Notes

- (a) The property management fee charged by TTII is determined in accordance with the agreement terms in the lease agreement entered into between TTII and the Company. The property management fee includes a fixed monthly management fee and utility charges, which are calculated with reference to the actual consumption of the utilities by the Company. The property management fee for 2001 was waived by TTII.
- (b) The operating lease rental charged by the sole investor of TTII is determined in accordance with the operating lease agreement entered into by the Company in 2002 described in Note 29(b)(i)(d).
- (c) The total operating lease rental charged by TTII is determined in accordance with the operating lease agreements described in Notes 29(b)(i)(b) and (c).

NOTES TO THE ACCOUNTS

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Tianjin TEDA Biomedical Engineering Company Limited

31 BANKING FACILITIES AND PLEDGE OF ASSETS

The Group had aggregate short-term bank borrowing facilities of RMB27,600,000 which were fully utilised at 31 December 2002. The facility of RMB20,000,000 is secured by the fixed deposit of RMB24,935,850 and other facilities of RMB7,600,000 are secured by corporate guarantees provided by the Company.

32 SUBSEQUENT EVENTS

Save as disclosed elsewhere in the accounts, no significant event has taken place subsequent to 31 December 2002 and up to the date of these accounts.

33 ULTIMATE HOLDING COMPANY

The directors regard TTII, a state-owned enterprise established in the PRC and solely owned by TEDA State-owned Asset Management Company, as being the ultimate holding company.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 20 March 2003.

NOTICE OF ANNUAL GENERAL MEETING

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NOTICE IS HEREBY GIVEN THAT the 2002 annual general meeting ("AGM") of Tianjin TEDA Biomedical Engineering Company Limited ("the Company") will be held at 9th Floor, Block A2, Tianda Science and Technology Park, The 4th Avenue, TEDA, Tianjin, the People's Republic of China (the "PRC") at 9:00 am on Wednesday, 14 May 2003 for the following purposes:

I. AS ORDINARY RESOLUTIONS:

1. To consider and, if thought fit, approve the Directors' Report of the Company for 2002;
2. To consider and, if thought fit, approve the Report of the Supervisory Committee of the Company for 2002;
3. To consider and, if thought fit, approve the audited consolidated financial statements of the Company for the year ended 31 December 2002;
4. To consider and, if thought fit, approve that no final dividend is declared for 2002;
5. To consider and, if thought fit, approve the proposal of appointing Messrs. PricewaterhouseCoopers as auditors of the Company for 2003 and authorize the Directors of the Company to fix their remuneration;
6. To consider and, if thought fit, approve the remuneration proposals for Directors and Supervisors of the Company for 2003; and
7. To transact any other business.

II. AS A SPECIAL RESOLUTION:

1. To consider and, if thought fit, approve the resolution to expand the business scope of the Company to include future products that may be manufactured and sold by the Company and to make such necessary amendments to article 12 of the Articles of Association of the Company.

Article 12 of the existing Articles of Association

"The business scope of the Company shall be approved by the company registration authority of the People's Republic of China.

The principal business scope of the Company includes: the research, development, production and sales of biomedical engineering and biotechnological products (including biomaterials and medical equipment) and the related technical services; investments through its own fund in medical equipment, medicine, food, chemicals, personal health care and other products; exporting business in its products and importing business in the machinery and equipment, parts and components and raw and supplementary materials required by the Company other than the merchandises and technologies restricted or prohibited by the State for import, export or trading purpose."

NOTICE OF ANNUAL GENERAL MEETING

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Tianjin TEDA Biomedical Engineering Company Limited

shall be deleted and substituted by:

"The business scope of the Company shall be approved by the company registration authority of the People's Republic of China.

The principal scope of the Company includes: the research, development, production and sales of biomedical engineering and biotechnological products (including biomaterials and medical equipment) and the related technical services; the production and sales of health food and food and beverages."

By order of the Board

Wang Shuxin

Chairman

Tianjin, the PRC
27 March 2003

Notes:

1. Any shareholder 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, a proxy form of holder of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (the "Company's Share Registrar") not less than 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, a proxy form of holder of Domestic Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Registered Address of the Company not less than 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.
5. The register of shareholders of the Company will be closed from 14 April 2003 to 14 May 2003 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Share Registrar not later than 13 April 2003 at 4:00 p.m. for registration.
6. Shareholders of the Company who intend to attend the meeting mentioned above should notify in writing of their attendance by sending such notice to the Company by hand, post or fax not later than 24 April 2003.
7. Registered Address of the Company and the contact details of the Company are as follows:

No. 12 Tai Hua Road, The 5th Avenue, TEDA, Tianjin, the People's Republic of China. Fax no.: (8622) 6621 1219