



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

FIRST QUARTERLY REPORT 2003

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

HIGHLIGHTS

- Turnover increased by 80% over the corresponding period last year to RMB11,468,266 for the three months ended 31 March 2003.
- The increase in sales turnover is partly attributable to the launching of the sugar reducing milk powder, a new product of Alpha, and partly attributable to the increase of sales of certain existing products after repackaging. Another source of increase is derived from the sales of fungi health products as well as the sales of sleeping status monitoring equipment and other medical monitoring equipment.
- Gross profit grew by approximately 85% to RMB5,801,679.
- Gross profit margin improved from 49% to 51%.
- Loss attributable to shareholders was RMB2,987,497, a 56% increase from the corresponding period last year.

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited quarterly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the three months ended 31 March 2003, together with the comparative figures of the corresponding period in 2002 as follows:

		For the three months ended 31 March	
		2003	2002
		<i>RMB</i>	<i>RMB</i>
	<i>Notes</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Turnover	2	11,468,266	6,378,006
Less: sales tax		(37,893)	(9,605)
Cost of sales		<u>(5,628,694)</u>	<u>(3,224,702)</u>
Gross profit		5,801,679	3,143,699
Selling and distribution costs		(2,992,960)	(2,250,003)
R&D and administrative expenses		<u>(5,686,965)</u>	<u>(2,474,427)</u>
Operating loss		(2,878,246)	(1,580,731)
Other income less other expenses		162,578	21,028
Amortization on goodwill		(75,855)	(58,396)
Finance expense		<u>(381,597)</u>	<u>(309,815)</u>
Loss before tax		(3,173,120)	(1,927,914)
Taxation	3	<u>–</u>	<u>–</u>
Loss after tax		(3,173,120)	(1,927,914)
Minority interests		<u>185,623</u>	<u>14,916</u>
Net loss attributable to the shareholders		<u>(2,987,497)</u>	<u>(1,912,998)</u>
Loss per share	4	<u>(0.747) cents</u>	<u>(0.638) cents</u>

Notes:

1. Basis of presentation

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

The accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

2. Turnover

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

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

	For the three months ended 31 March	
	2003	2002
	<i>RMB</i>	<i>RMB</i>
Turnover:		
Diabetic health products	6,652,324	5,938,161
Other medical & health products	4,815,942	439,845

3. Taxation

- (a) The Company, being a joint venture company with limited liability in the People's Republic of China (the "PRC"), is subject to 30% state income tax and 3% local income tax.

For the period ended 31 March 2003, there was no assessable profit to Enterprise income tax ("EIT") generated by the Group except for Tianjin Alpha Health Care Products Co., Ltd. ("Alpha"). Alpha, being a Sino-foreign joint-venture enterprise located in Tianjin Economic Technological Development Area ("TEDA"), is eligible for state income tax at a 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 is also entitled to exemption from 3% local income tax during its actual operational period in TEDA. Since Alpha is entitled to exemption from EIT for the year ending 31 December 2003 (being the second profit-making year), no provision for EIT for the Group has been made during the period.

Beijing TEDAX² Medical Engineering Company Limited ("TEDAX²") and Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Beijing Xinxing"), being limited companies incorporated 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 recognized 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.

Tianjin Wan Tai Bio-development Company Limited ("Wan Tai"), and Tianjin Yisheng Bioengineering Co. Ltd. ("Yisheng") being limited companies incorporated in the PRC, are subject to 30% state income tax and 3% local income tax.

- (b) No taxation on income is charged to the Group's consolidated profit and loss account.

The taxation on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate in the PRC as follows:

	For the three months ended 31 March	
	2003	2002
	<i>RMB</i>	<i>RMB</i>
Loss before tax	<u>(3,173,120)</u>	<u>(1,927,914)</u>
EIT at tax rate of 33%	(1,047,130)	(636,212)
Effect of the 2 years tax holiday exemption applicable on Alpha	(119,278)	(57,835)
Effect of the tax losses of other companies on consolidated result	<u>1,166,408</u>	<u>694,047</u>
Taxation charge	<u> —</u>	<u> —</u>

- (c) Deferred income tax assets are recognized for tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unrecognized tax losses to carry forward for setoff against future taxable income.

4. Loss per share

For the three months ended 31 March 2003, the calculation of loss per share is based on the unaudited loss attributable to shareholders of the Company of RMB2,987,497 (for the three months ended 31 March 2002, the loss attributable to shareholders of the Company was RMB1,912,998), divided by the total number of shares issued by the Company during the period. For the three months ended 31 March 2003, the total number of shares issued by the Company is 400,000,000 (for the three months ended 31 March 2002, the total number of shares issued by the Company was 300,000,000). There was no diluted loss per share as there were no dilutive potential ordinary shares outstanding during the period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: NIL).

MOVEMENT OF RESERVES

	For the three months ended 31 March					
	Share premium		Capital reserve		Accumulated losses	
	2003	2002	2003	2002	2003	2002
	RMB	RMB	RMB	RMB	RMB	RMB
Balances as of 1 January	62,031,951	–	2,541,404	3,081,404	(33,642,301)	(19,793,454)
Net loss for the three months ended 31 March	–	–	–	–	(2,987,497)	(1,912,998)
	<u>62,031,951</u>	<u>–</u>	<u>2,541,404</u>	<u>3,081,404</u>	<u>(36,629,798)</u>	<u>(21,706,452)</u>
Balances as of 31 March	<u>62,031,951</u>	<u>–</u>	<u>2,541,404</u>	<u>3,081,404</u>	<u>(36,629,798)</u>	<u>(21,706,452)</u>

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

The Group is principally engaged in the research and development and commercialization of medical and health products including biomedical equipment, biomaterials, natural pharmaceuticals and diabetic health products.

The economy of the People's Republic of China (the "PRC") continued to demonstrate strong growth momentum and has successfully sustained its GDP growth of 7%. As a result of impressive economic growth that leads to improving living standards, the demand for quality health products and medical equipment in the PRC continued to surge during the past years. The Group has leveraged on its long established brand recognition, competitive prices as well as extensive sales network to excel in the enormous PRC market.

For the three months ended 31 March 2003, sales turnover was RMB11,468,266, an increase of approximately 80% over the corresponding period in 2002. Gross profit margin was improved from 49% to 51% and the total gross profit increased to approximately RMB5.8 million. Net loss attributable to shareholders of the Company also increased 56% from RMB1,912,998 to RMB2,987,497 due to the increase in research and development and administrative expenses during the period under review. Approximately 42% and 58% of the total turnover were derived from the sales of (i) medical equipment and biomaterials and (ii) diabetic health products, which were sold under the brand names of "TEDA" and "Alpha" respectively.

Medical Equipment and Biomaterials

The Group continued to launch medical equipment under the “TEDA” brand name. The setting up of Beijing TEDAX² Medical Engineering Company Limited (“TEDAX²”), which is principally engaged in the manufacture and sales of monitoring equipment including sleeping status equipment and the SRM-Angel-110 multi-parameter medical monitor, contributed approximately RMB1.9 million to the Group’s sales revenue during the first quarter of 2003. After the outbreak of Severe Acute Respiratory Syndrome (also known as atypical pneumonia) (“SARS”) in Beijing and various places in the PRC, the sales of respiratory equipment and relevant medical monitoring equipment will be expected to increase in the second quarter of 2003.

In March 2003, we also improved the biocompatibility of surface smoothness for the production of catheters and obtained the trial production certificate of surface smoothness catheters for medical use. Also during the first quarter of 2003, the Company has passed the inspection tests on surface modified intraocular lens for the purpose of obtaining trial production certificate. It is expected the trial production certificate for F-Heparin surface modified intraocular lens will be obtained in the second half of this year.

The Group will utilize its research and development capabilities and cooperate with quality manufacturers to further improve quality and production efficiency as well as to reduce fixed costs investment.

“Alpha” Health Products

The Group has successfully sustained “Alpha” as one of the prestigious brands of diabetic health foods in the PRC. “Alpha”, being one of the market leaders in diabetic health food market, continued to diversify its product variety with the support from highly sophisticated research and development team throughout the period.

Apart from the popular and highly demanded health products such as biscuits, oatmeal, tea, drinks and sugar-free mooncakes, the Group has also obtained the production certificate of milk powder for diabetic patients. The product has been launched to the market in March 2003.

For the three months ended 31 March 2003, “Alpha” products contributed RMB6,652,324 to the total turnover and represented an increase of approximately 13% over the corresponding period in 2002 (2002 Q1: RMB5,938,161). The increase was partly attributable to the launching of the new product of sugar reducing milk powder and partly attributable to the increase of sales of certain existing products after repackaging.

Set up of new subsidiary

As a new joint venture, “Tianjin Yisheng Bioengineering Co. Ltd.” (“Yisheng”) was established on 17 February 2003 for the manufacture of fungi health products. Yisheng will leverage on the existing sales channels of “Alpha” health products to develop the over-the-counter channel and position its products as the best health foods in the high-end market.

The registered capital of Yisheng is RMB5 million and the Company made a cash contribution of RMB3.5 million, representing 70% of Yisheng’s registered capital.

During the quarter under review, the Group successfully developed a new health product, namely “Yisheng Coprinus Ovatus Chewing Tablets” (益生口嚼片) which is highly effective in strengthening immune system of human body. The Group shall proceed with the registration procedures with Food and Drug Administration of the PRC for the purpose of launching the same to the PRC market.

The marketing strategy of “Yisheng Coprinus Ovatus Chewing Tablets” and future health products 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. This should become the pioneer of health products which will strengthen the immune system of human body for facing SARS or other future unknown infectious illnesses in the days to come.

Sales and Marketing

For the period under review, the Group’s sales and marketing expenses amounted to RMB2,992,960, representing approximately 26% of total turnover of the Group for the same period.

During the period under review, the Company continued to review the cost-effectiveness of its sales and marketing expenses and adopted a prudent method to expand its sales channels for different product categories under its ownership. The Group also actively participated in several industry fairs, including the Chinese Export Commodities Fair in Guangzhou of the PRC to explore potential cooperation for new sales channels and market segments in 2003.

The number of sales and marketing personnel in Tianjin Wan Tai Bio-development Company Limited (“Wan Tai”) has been increased to 17 in order to strengthen its sales and marketing activities. On the other hand, the Group will further fortify its strengths on the distribution of its products through identifying new sales channels as well as new distributors in new geographical markets.

Future Prospects

The Group is well positioned to capture the enormous potentials of the PRC market due to the support of the government of TEDA, the Group's strong research and development capabilities, sound financial status and well-allocated sales marketing resources.

The Group will continue to rely on its unrivaled research capability through its core research team as well as the professional consultants it employs. The Group also works closely with renowned institutes, ranging from universities and research powerhouses.

With its strong foundation in business development, 2003 will be a year of aggressive promotions, market development and profit exploration for the Group. The Group will focus on exploring the synergies among the manufacture, sales and distribution of branded health foods and products, medical equipment and testing agents.

In view of the endless growing potentials in the PRC market after its accession to World Trade Organization, successful application for hosting the 2008 Olympic Games and the World Expo in 2010, coupled with the increasing concern on individual health and immunity, the management is confident that the Group will record better results for the years to come and to bring fruitful returns to all shareholders.

SUBSTANTIAL SHAREHOLDERS

As of 31 March 2003, holder of the Company's domestic shares representing 10% or more of the Company's total issued capital was:

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

As of 31 March 2003, holder of the Company's H shares representing 10% or more of the Company's total issued capital was:

Name of shareholders	Number of shares	Percentage
HKSCC Nominees Limited	99,885,000	24.97%

Save as disclosed above, the Company is not aware of any interests required to be disclosed by the Company pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as of 31 March 2003.

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

As of 31 March 2003, the interests of the Directors of the Company and their respective associates in the Company and its associated corporations (within the meaning of the SDI Ordinance) as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance, or required pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

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

Note: All represented domestic shares

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

None of the directors or the supervisors or senior management of the Company, nor their spouses or children under the age of 18 were granted or had exercised any rights to subscribe for the securities in the Company during the three months ended 31 March 2003 for its provision of services.

INTEREST OF THE SPONSOR

None of CSC Asia Limited, 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 person to subscribe for the securities of the Company or any member of the Group as at 31 March 2003.

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 period commencing from 18 June 2002 and ending on 31 December 2004 and the Company shall pay an agreed fee to CSC Asia Limited for its provision of services.

CONTINGENT LIABILITIES

As at 31 March 2003, the Company had provided guarantee as security for bank borrowings of RMB2,600,000 granted to a wholly-owned subsidiary of TEDAX², namely Beijing Xinxing Biomedical Engineering Research and Development Institute. At the same time, the Company has also provided guarantee as security for bank borrowings of RMB5 million granted to Alpha.

AUDIT COMMITTEE

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

The Committee has reviewed the first quarterly results and the first quarterly report for the three months ended 31 March 2003. Before that, three meetings were held during last and current financial years.

SHARE OPTION SCHEME

During the period ended 31 March 2003, none of the directors or supervisors or employees or other participants of the share option scheme of the Company was granted with options to subscribe for the H shares of the Company. As at 31 March 2003, none of the directors or supervisors or employees or other participants of the share option scheme of the Company had any rights to acquire the H shares in the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2003, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company’s listed shares.

PRACTICES AND PROCEDURES OF THE BOARD

For the three months ended 31 March 2003, the Group has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures.

By Order of the Board
Wang Shu Xin
Chairman

Tianjin, PRC, 13 May 2003