



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

HALF-YEARLY 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

- For the six months ended 30 June 2003, turnover increased by 114% from the corresponding period of last year and amounted to approximately RMB24,453,000.
- Gross profit increased 95% from the corresponding period of last year to reach approximately RMB11,619,000.
- Gross profit margin decreased from 52% to 47.5% when compared with the corresponding period of last year.
- Net loss attributable to shareholders amounted to approximately RMB9,256,000, representing an increase of 196% from the corresponding period of last year.

HALF-YEARLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited half-yearly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2003, together with the comparative figures for the corresponding period of 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the six months ended 30 June		For the three months ended 30 June	
		(Unaudited) 2003 <i>RMB</i>	(Unaudited) 2002 <i>RMB</i>	(Unaudited) 2003 <i>RMB</i>	(Unaudited) 2002 <i>RMB</i>
Turnover	2	24,453,225	11,407,799	12,984,959	5,029,793
<i>Less: sales tax</i>		(79,758)	(14,019)	(41,865)	(4,414)
Cost of sales		<u>(12,753,851)</u>	<u>(5,439,473)</u>	<u>(7,125,157)</u>	<u>(2,214,771)</u>
Gross profit		11,619,616	5,954,307	5,817,937	2,810,608
Selling and distribution costs		(8,235,490)	(4,317,473)	(5,242,530)	(2,067,470)
R&D and administrative expenses		<u>(12,559,589)</u>	<u>(4,698,108)</u>	<u>(6,872,624)</u>	<u>(2,223,681)</u>
Operating loss		(9,175,463)	(3,061,274)	(6,297,217)	(1,480,543)
Other income less other expenses		774,807	695,378	612,229	674,350
Amortization on goodwill		(151,710)	(116,792)	(75,855)	(58,396)
Finance expense	3	<u>(825,141)</u>	<u>(688,580)</u>	<u>(443,544)</u>	<u>(378,765)</u>
Loss before tax	4	(9,377,507)	(3,171,268)	(6,204,387)	(1,243,354)
Taxation	5	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss after tax		(9,377,507)	(3,171,268)	(6,204,387)	(1,243,354)
Minority interests		<u>120,735</u>	<u>44,957</u>	<u>(64,888)</u>	<u>30,041</u>
Net loss attributable to the shareholders		<u>(9,256,772)</u>	<u>(3,126,311)</u>	<u>(6,269,275)</u>	<u>(1,213,313)</u>
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Loss per share					
– Basic	6	<u>(2.31) cents</u>	<u>(1.02) cents</u>	<u>(1.57) cents</u>	<u>(0.39) cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2003 (Unaudited) RMB	31 December 2002 (Audited) RMB
ASSETS			
Non-current assets			
Property, plant and equipment, net	7	13,983,509	14,389,361
Construction in progress		21,739	–
Long term accounts receivable		2,432,900	–
Proprietary technologies		3,730,996	4,033,436
Goodwill on consolidation		4,816,986	4,968,696
		24,986,130	23,391,493
Current assets			
Inventories		15,302,936	8,193,213
Trade receivables, net	8	12,766,036	9,494,277
Prepayment and other receivables		12,136,640	8,885,934
Value-added tax recoverable		654,124	245,859
Due from related parties		979,204	1,355,616
Due from directors		25,538	20,754
Restricted deposit		–	24,935,850
Cash and bank balances		42,694,136	40,527,637
		84,558,614	93,659,140
Current liabilities			
Short-term bank borrowings		27,000,000	27,600,000
Trade payable	9	2,009,611	1,630,259
Government grants received in advance		1,152,008	1,852,008
Other payables and accruals		9,775,895	7,132,124
Due to directors		–	51,505
Current portion of non-current liabilities		944,286	2,244,286
		40,881,800	40,510,182
Net current assets/(liabilities)		43,676,814	53,148,958
Non-current liabilities		(700,000)	(700,000)
Minority interests		(6,288,662)	(4,909,397)
TOTAL NET ASSETS		61,674,282	70,931,054
CAPITAL AND RESERVES			
Share capital	10	40,000,000	40,000,000
Accumulated losses		(42,899,073)	(33,642,301)
Capital reserve		64,573,355	64,573,355
		61,674,282	70,931,054

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2003	2002
	(Unaudited) <i>RMB</i>	(Unaudited) <i>RMB</i>
Cash Flows from operating activities:		
Cash generated from/(used in) operation	(22,203,239)	(10,584,933)
Interest received	147,242	30,992
Interest paid	(787,389)	(688,580)
	<u>(22,843,386)</u>	<u>(11,242,521)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(825,965)	(988,488)
Payments for acquisition of proprietary technologies	–	(1,475,714)
	<u>(825,965)</u>	<u>(2,464,202)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term bank borrowings	25,000,000	21,500,000
Repayment of short-term bank borrowings	(25,600,000)	(20,000,000)
Payment of listing expenses	–	(22,512,824)
Proceeds from listing	–	103,938,800
Contribution by a minority shareholder of a subsidiary	1,500,000	–
Release of restricted deposit by PRC bank	24,935,850	–
	<u>25,835,850</u>	<u>82,925,976</u>
Net cash generated from financing activities		
	<u>25,835,850</u>	<u>82,925,976</u>
NET INCREASE IN CASH AND BANK BALANCES	2,166,499	69,219,253
CASH AND BANK BALANCES AT THE BEGINNING OF THE PERIOD	40,527,637	7,906,435
	<u>40,527,637</u>	<u>7,906,435</u>
CASH AND BANK BALANCES AT THE END OF THE PERIOD	<u>42,694,136</u>	<u>77,125,688</u>

Notes:

1. Basis of presentation

The Group has prepared the condensed consolidated financial statements in accordance with accounting principles generally accepted in Hong Kong and in particular, the Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed 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 using technology in the biomedical engineering discipline.

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

	For the six months end 30 June		For the three months ended 30 June	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Turnover:				
Diabetic health products	11,385,440	10,407,938	4,733,116	4,469,777
Other medical and health products	13,067,785	999,861	8,251,843	560,016
	<u>24,453,225</u>	<u>11,407,799</u>	<u>12,984,959</u>	<u>5,029,793</u>

3. Finance expense

	For the six months end 30 June		For the three months ended 30 June	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Interest expenses on bank loans and bank charges	825,141	688,580	443,544	378,765
	<u>825,141</u>	<u>688,580</u>	<u>443,544</u>	<u>378,765</u>

4. Loss before tax

Loss before tax is arrived at after charging:

	For the	
	six months	
	ended 30 June	
	2003	2002
	RMB	RMB
Depreciation of property, plant and equipment	870,771	701,245
Provision for doubtful debts	2,267,353	125,771
Amortization of intangible asset	302,440	–
Amortization of goodwill	151,710	116,792

5. Taxation

a. Enterprise income tax (“EIT”)

The Company, being a joint stock company incorporated in the People’s Republic of China (the “PRC”) with limited liability, is subject to 30% state income tax and 3% local income tax.

For the period ended 30 June 2003, there was no assessable profit to 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 reduced rate of 15%. It is also entitled to an exemption from state income tax for two years commencing from its first profit-making year after offsetting previous years’ losses, followed by a 50% reduction of state income tax for the three years thereafter. In addition, Alpha is also entitled to an exemption from 3% local income tax during its actual operational period in TEDA. Since Alpha is entitled to the 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 an exemption from 3% local income tax during their 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.

No taxation on income is charged to the Group's consolidated profit and loss account (2002: no tax on income).

Since the Group does not carry on any business in Hong Kong, the income tax charge is HK\$Nil for the period ended 30 June 2003 (June 2002: HK\$Nil).

b. Deferred Taxation

Hong Kong profits tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the year. The profit tax rate has been increased with effect from the 2003 year of assessment. Taxation in the PRC jurisdictions is calculated at 33%.

The charge for the period can be reconciled to the loss per the profit and loss account as follows:

	For the six months ended	
	30 June 2003	30 June 2002
	<i>RMB</i>	<i>RMB</i>
Loss before tax	(9,377,507)	(3,171,268)
Tax at the Hong Kong income tax rate of 17.5% (2002: 16%)	(1,641,063)	(507,403)
Tax effect of different tax rate (at 33%) operating in the PRC	(1,453,514)	(539,115)
Effect of tax holiday exemption	(152,382)	(27,767)
Effect of the tax losses on consolidation	3,191,488	1,035,744
Tax effect of utilization of tax losses not previously recognised	-	-
Tax effect of expenses that are not deductible in determining taxable profit	55,471	38,541
Tax expense for the period	<u>-</u>	<u>-</u>

c. *Deferred tax asset*

As of 30 June 2003, the Group had unused tax losses of RMB22.10 million (2002: RMB9.36 million). No deferred tax asset has been recognised (2002: Nil) due to the creditability of future profit revenue, included in unrecognised tax losses are losses of RMB22.10 million (2002: RMB9.36 million) that will expire as follows:

	Unrecognised tax losses	Year of expiry
	<i>RMB</i>	
Alpha	Nil	–
Tianjin TEDA Biomedical Engineering Co., Ltd.	4,603,554	2006
	8,788,880	2007
	6,407,641	2008
TEDAX ²	677,481	2007
	177,840	2008
Wan Tai	631,427	2007
	45,534	2008
Beijing Xinxing	637,992	2007
	20,657	2008
Yisheng	112,973	2008
	<u>22,103,979</u>	

The above losses are subject to the approval of the relevant PRC tax authorities.

d. *Deferred tax liability*

At 30 June 2003, no deferred tax liability has been recognised as the temporary differences are insignificant and it is possible that no such differences will reverse in the foreseeable future.

6. **Loss per share**

The calculation of the basic loss per share for the six months ended 30 June 2003 was based on the unaudited loss attributable to shareholders for the period of RMB9,256,772 (2002: RMB3,126,311) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2002: 307,182,320 shares).

The calculation of the basic loss per share for the three months ended 30 June 2003 was based on the unaudited loss attributable to shareholders for the period of RMB6,269,275 (2002: RMB1,213,313) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2002: 314,285,714 shares).

Diluted loss per share is not presented as there is no dilutive potential shares (2002: no diluted loss per share).

7. Additions to property, plant and equipment

During the period, the Group spent approximately RMB490,678 (2002: RMB988,488) on the acquisition of property, plant and equipment.

8. Trade receivable, net

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

	30 June 2003 (Unaudited) RMB	31 December 2002 (Audited) RMB
Trade receivable	17,630,687	12,091,575
Provision for doubtful accounts	<u>(4,864,651)</u>	<u>(2,547,298)</u>
Accounts receivable, net	<u>12,766,036</u>	<u>9,494,277</u>

The aging analysis of accounts receivable is as follows:

	30 June 2003 (Unaudited) RMB	31 December 2002 (Audited) RMB
Within 3 months	9,167,957	6,692,497
Over 3 months but within 6 months	4,936,592	2,765,678
Over 6 months	<u>3,526,138</u>	<u>2,633,400</u>
	<u>17,630,687</u>	<u>12,091,575</u>

9. Trade payable

The aging analysis of trade payable is as follows:

	30 June 2003 (Unaudited) RMB	31 December 2002 (Audited) RMB
Within 3 months	1,647,881	1,223,036
Over 3 months but within 6 months	80,384	176,844
Over 6 months	<u>281,346</u>	<u>230,379</u>
	<u>2,009,611</u>	<u>1,630,259</u>

10. Share capital

	30 June 2003		31 December 2002	
	Number of shares	Nominal value <i>RMB'000</i>	Number of shares	Nominal value <i>RMB'000</i>
Registered	<u>400,000,000</u>	<u>40,000</u>	<u>400,000,000</u>	<u>40,000</u>
Issued and fully paid				
Domestic shares of RMB0.1 each	<u>300,000,000</u>	<u>30,000</u>	<u>300,000,000</u>	<u>30,000</u>
H shares of RMB0.1 each	<u>100,000,000</u>	<u>10,000</u>	<u>100,000,000</u>	<u>10,000</u>
	<u>400,000,000</u>	<u>40,000</u>	<u>400,000,000</u>	<u>40,000</u>

11. Charges on group assets

As at 30 June 2003, none of the Group's assets was pledged as security for liabilities (2002: Nil).

12. Capital commitments

As of 30 June 2003, the Group had the following capital commitments which were not provided for in the condensed consolidated financial statements of the Group:

Commitments relating to the set up of Beijing representative office by the Company are annual rental including management fee of RMB379,284 and leasehold improvement of RMB108,000.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Segmental information

The Group is organized into 2 main business segments which are diabetic health products and other medical and health products using technology in biomedical engineering discipline.

The results of the Group segregated by segments for the six months ended 30 June 2003 and for the three months ended 30 June 2003 as compared to the corresponding periods in 2002 are analysed as follows:

	For the Six months ended 30 June		For the three months ended 30 June	
	2003	2002	2003	2002
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Segment revenues				
Diabetic health products	11,385,440	10,407,938	4,733,116	4,469,777
Other medical and health products	13,067,785	999,861	8,251,843	560,016
Segment results				
Diabetic health products	344,972	84,142	(16,476)	(149,511)
Other medical and health products	(9,601,744)	(3,210,453)	(6,252,799)	(1,063,802)

Consolidated statement of movements in equity

	Share Capital <i>RMB</i>	Accumulated losses <i>RMB</i>	Capital reserve <i>RMB</i>	Total <i>RMB</i>
Balance as at 1 January 2002 (Audited)	30,000,000	(19,793,454)	3,081,404	13,287,950
Net loss attributable to the shareholders for the three months ended 31 March 2002	—	(1,912,998)	—	(1,912,998)
Balance as at 31 March 2002 (Unaudited)	30,000,000	(21,706,452)	3,081,404	11,374,952
Net loss attributable to the shareholders for the three months ended 30 June 2002	—	(1,213,313)	—	(1,213,313)
H Shares of RMB0.1 each issued	10,000,000	—	—	10,000,000
Increase in capital reserve	—	—	62,418,175	62,418,175
Balance as at 30 June 2002 (Unaudited)	<u>40,000,000</u>	<u>(22,919,765)</u>	<u>65,499,579</u>	<u>82,579,814</u>

	Share Capital <i>RMB</i>	Accumulated losses <i>RMB</i>	Capital reserve <i>RMB</i>	Total <i>RMB</i>
Balance as at 1 January 2003 (Audited)	40,000,000	(33,642,301)	64,573,355	70,931,054
Net loss attributable to shareholders for the three months ended 31 March 2003	<u>–</u>	<u>(2,987,497)</u>	<u>–</u>	<u>(2,987,497)</u>
Balance as at 31 March 2003 (Unaudited)	40,000,000	(36,629,798)	64,573,355	67,943,557
Net loss attributable to shareholders for the three months ended 30 June 2003	<u>–</u>	<u>(6,269,275)</u>	<u>–</u>	<u>(6,269,275)</u>
Balance as at 30 June 2003 (Unaudited)	<u>40,000,000</u>	<u>(42,899,073)</u>	<u>64,573,355</u>	<u>61,674,282</u>

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 its suppliers are also denominated in Renminbi.

Liquidity, financial resources and capital structure

The Group has maintained a sound financial position for the six months ended 30 June 2003. During the period, the Group's primary source of fund was cash proceeds derived from the placing of the Company's new H shares in June 2002 and banking facilities granted by various PRC banks. As at 30 June 2003, the Group had bank and cash balances amounted to RMB42,694,136 (31 December 2002: RMB40,527,637), short-term bank borrowings of RMB27,000,000 (31 December 2002: RMB27,600,000) and non-current liabilities of RMB700,000 (31 December 2002: RMB700,000). The bank borrowings are denominated in Renminbi and provided by various PRC banks in fixed interest rates within the range from 5.31% to 6.903% (31 December 2002: 5.31% to 6.903%) per annum. The major portion of the bank borrowings in the total sum of RMB22,000,000 will be matured on 27 June 2004. The remaining portion in the total sum of RMB5,000,000 will be matured on variable dates from 27 September 2003 to 26 May 2004. As at 30 June 2003, the Group did not have any restricted deposit (31 December 2002: RMB24,935,850).

As at 30 June 2003, the Group had total assets of RMB109,544,744 (31 December 2002: RMB117,050,633) which were financed by current liabilities of RMB40,881,800 (31 December 2002: RMB40,510,182), non-current liabilities of RMB700,000 (31 December 2002: RMB700,000), shareholders' equity of RMB61,674,282 (31 December 2002: RMB70,931,054) and minority interests of RMB6,288,662 (31 December 2002: RMB4,909,397).

As at 30 June 2003, the Group's gearing ratio, defined as the ratio between the total bank borrowings and the shareholders' equity, was 0.44 (31 December 2002: 0.39). The liquidity ratio of the Group, represented by a ratio of the current assets over the current liabilities, was 2.07 (31 December 2002: 2.31), reflecting the abundance of financial resources available to the Group.

Substantial investment/Major acquisition and disposal

Except for making a cash capital contribution of RMB3.5 million to (being 70% of) the registered capital of a new joint venture, namely "Tianjin Yisheng Bioengineering Co. Ltd." ("Yisheng") which was established on 17 February 2003, the Group did not have any substantial investment during the period.

For the six months ended 30 June 2003, the Group did not make any major acquisition or disposal of subsidiaries or affiliated companies (2002: no major acquisition/disposal). Except as stated in the section headed "Statement of business objectives" of the prospectus of the Company dated 10 June 2002, there is no plan of major investment or acquisition of capital assets as at 30 June 2003.

Staff cost information

For the six months ended 30 June 2003, the salary cost of the Group was approximately RMB5,259,000 (2002: RMB2,870,000). The increase in salary cost was mainly due to the increase in the number of employees from 248 (as at 30 June 2002) to 401 (as at 30 June 2003). Salary of the employees was determined on the basis of their performance and the market trend.

Each of the executive directors and supervisors of the Company has entered into a service agreement with the Company. According to the service agreement, each director and each supervisor are entitled to receive an annual salary payable as specified in their service agreements respectively.

Treasury policy

Since there is no foreign exchange risk, the Group's bank borrowings are denominated in Renminbi and usually renew for one year when they become matured. Generally speaking, the Group adopts a conservative policy of maintaining a low gearing ratio and a high liquidity ratio. The cash derived from the placing of new H shares of the Company will be utilized according to the schedule of use of proceeds set out in the

paragraph headed “Use of proceeds” under the section headed “Business objectives” of the prospectus of the Company dated 10 June 2002. In the meantime, any surplus cash is put as time deposit with PRC licensed bank.

Pledge of assets

As at 27 June 2003, the pledging of fixed deposit of HK\$23,500,000 for obtaining the bank loan from China Construction Bank was released and the existing bank loan of RMB22,000,000 was guaranteed by Tianjin TEDA Guaranty Company Limited, an independent third party of the Group (2002: pledge of fixed deposit amounted to HK\$23,500,000 as at 31 December 2002).

Business review

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

The economy of the People’s Republic of China (the “PRC”) continued to demonstrate strong growth momentum. According to the latest statistics from National Bureau of Statistics of the PRC, the country’s GDP in the first half of 2003 increased by 8% from the corresponding period of last year. It is expected that the GDP can achieve the forecasted growth rate of 7% for the year.

Based on the recent trends, the demand for quality health products and biomedical equipment continues to increase in the PRC market. The outbreak of Severe Acute Respiratory Syndrome (“SARS”) increased the necessity to upgrade and renew the medical equipment in hospitals in the PRC. As a manufacturer and distributor of health products and medical equipment, the Group was faced not only with challenges but also with new business opportunities.

For the six months ended 30 June 2003, turnover of the Group amounted to RMB24,453,000, representing an increase of 114% from the corresponding period of last year. The gross profit margin of 47.5% is slightly lower than 52% of last year. For the six months ended 30 June 2003, total gross profit surged to RMB11,619,000, representing an increase of 95% from the corresponding period of last year. Net loss attributable to shareholders also increased from RMB3,126,000 to RMB9,256,000, as a result of high costs for operational expenses and sales and marketing.

The sale of i) diabetic health products and ii) other medical and health products under the brand names of “ALPHA” and “TEDA” contributed to 47% and 53% respectively to the Group’s total turnover for the six months ended 30 June 2003.

Medical equipment and biomaterials

The Group continued to launch medical equipment under “TEDA” brand name in the PRC. TEDAX², which is engaged in the manufacture and sales of medical equipment, namely monitoring equipment such as sleeping status equipment and the SRM-Angel-110 multi-parameter medical monitor, brought to a total turnover of RMB6,218,000 to the Group for the first half of 2003. The boost in sales, especially in the second quarter, was the result of the outbreak of SARS in Beijing and throughout the PRC.

In the first quarter of this year, the Group obtained the trial production certificate of surface smoothness catheters for medical use and passed the inspection tests on surface modified intraocular lens for the purpose of obtaining trial production certificate. The Group also obtained production certificates of four products for hospital use, namely N95 mouth masks, eye masks, surgical gloves and protection gears.

All in all, the Group made significant progress in manufacturing new products and obtaining new production certificates. The Group is confident in obtaining the trial production certificate for F-Heparin surface modified intraocular lens in the second half of 2003. The continuous product expansion is advantageous to the Group’s further development.

“ALPHA” health products

The Group has successfully established “ALPHA” as one of the prestigious brands for diabetic health foods in the PRC.

For the six months ended 30 June 2003, the turnover through the sale of Alpha products reached RMB11,385,000, representing an increase of 9% from that of the corresponding period of 2002. The growth in turnover is mainly attributable to the steady demand of Alpha products and the satisfactory response of its newly launched sugar reducing milk powder.

Set up of new subsidiary

As mentioned previously in the Group’s first quarter results, the Group has a 70% interest in the registered capital of Tianjin Yisheng Bioengineering Co. Ltd. (“Yisheng”), which is principally engaged in the manufacture of fungi health products and was established in February this year. From the date of establishment, Yisheng has leveraged on the existing sales channels of Alpha health products to develop the over-the-counter channel and position its products as one of the best health foods in the high-end market.

At the same time, the Group has also successfully developed a new healthcare product – “Yisheng Coprinus Ovatus Chewing Tablets” (“Chewing Tablet”). This product has been registered with the Health Bureau of Tianjin and the Quality and Technology Supervision Bureau of TEDA of the PRC, and has recently been launched in the PRC market. Chewing Tablet reiterates the message that healthcare products can strengthen the immune system. This is a small step for the Group, but an important one, for the research and development of its products.

Sales and Marketing

During the period under review, the Group's sales and marketing expenses amounted to RMB8,235,490, accounting for approximately 33% of its total turnover. The Group shall review its sales and marketing expenses so as to maximize cost effectiveness.

The Group will develop a variety of sales channels for different product categories, as well as participate in several industry fairs to explore potential cooperation opportunities and new sales channels. The Group is exploring the possibility of selling Chinese herbal products and launching Alpha products in Hong Kong.

Tianjin Wan Tai Bio-development Company Limited ("Wan Tai") will continue to be responsible for the sales and marketing promotions of the Group's medical equipment. The Directors will monitor the effectiveness of its sales and marketing strategies.

In order to obtain and control timely market information, the information about direct competitors and to promote better product image, the Group will set up franchise outlets for "Yisheng" healthcare products in various PRC big cities. The existing work force in various PRC offices of the Group will also involve in planning, controlling and liaising with governmental bodies for the set up of these franchise outlets.

The Group expects that the sales income and sales gross profit of Yisheng healthcare products will be reduced by RMB2.2 million and RMB1.4 million respectively and the inventory of the Group will be increased by approximately RMB0.8 million in the third quarter this year because of the need for the return of goods for repackaging which is vital for the success of the subsequent change of business mode.

Future Prospects

With the support of the government of TEDA, coupled with the Group's impressive research and development ("R&D") capability, sound financial position and appropriate sales and marketing strategies, the Group possesses the pivotal keys to success.

In terms of market development, although the outbreak of SARS slightly hindered the expected growth of the Group, the Group will leverage on its solid foundation and continue to aggressively promote and develop the market.

In the future, the Group will integrate its R&D team with R&D consultants, and strengthen its collaboration with universities and research institutions. The goal is to research and develop new products while maximizing cost efficiency, so as to expand the Group's product range and increase its market penetration. At present, the Group is studying the improvement on the applications of *coprinus ovatus* and its effectiveness in strengthening the immune system.

With China's accession into WTO, its successful bidding of the 2008 Olympics and the 2010 World Expo, the Group is confident that there is still enormous room for growth and development in China. As a result of the outbreak of SARS, the increasing concern and awareness for personal hygiene and healthcare will benefit the Group in its future development in the medical and health product market.

Comparison of Business Objectives with Actual Business Progress

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 30 June 2003

Research and development of new medical and health products:

(a) Clinical catheters

- | | |
|---|---|
| <ul style="list-style-type: none">• 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">• Improved the bio-compatibility of surface smoothness for the production of catheters• 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 |
|--|--|

**Business objectives as stated
in the prospectus dated 10 June 2002**

**Actual business progress up to
30 June 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 was obtained in February of 2003
• Continued research and development on surface modification engineering
• Commenced research and development of soft artificial lenses |
|--|--|

(d) Sodium hyaluronate

- | | |
|---|---|
| <ul style="list-style-type: none">• 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 | <ul style="list-style-type: none">• Continued research and it is expected to disclose the result in September 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 |
|---|---|

**Business objectives as stated
in the prospectus dated 10 June 2002**

**Actual business progress up to
30 June 2003**

(e) Breast implants

- Continue research and development on aquagel breast implants
- Continued research and development on aquagel breast implants

(f) Tissue engineering

- Commence research on skin tissue
- Commenced research on skin tissue
- Commence research on human cell division
- Commenced research on human cell division
- Commence research on human liver cell growth reactor
- Research commenced and reports will be disclosed during the first conference meeting of human liver research in August 2003 at Hangzhou

(g) Medical monitoring systems

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

(h) 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
- Continued research and development of Biological organic vanadium with the Pharmaceutical Research Centre of the PRC Science and Medical Institute and Nankai University

**Business objectives as stated
in the prospectus dated 10 June 2002**

**Actual business progress up to
30 June 2003**

(i) 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
- 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 namely “Tianjin Yisheng Bioengineering Co. Ltd.” was set up in February 2003 for the production of such products

Develop strategic alliances

- Active participation by the Group’s professional personnel in seminars and conferences of related industries
- Participated in several seminars and conferences of related industries including the National Medical Equipment Industry Conference held in Chengdu in April 2003
- Seek for and establish new strategic alliance partners in further developing the Group’s business activities in the PRC and possibly overseas
- An agreement was entered into with BCT Global Development Limited for the promotion of the Group’s products in South East Asia and discussion with various Hong Kong enterprises also commenced

Expansion of research facilities

- Continue to enhance the Group’s existing research and development facility
- Continued to enhance existing research and development facility of the Group

**Business objectives as stated
in the prospectus dated 10 June 2002**

**Actual business progress up to
30 June 2003**

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 60 persons
- Open representative office for Wan Tai in 2 cities in Jiangsu, Zhejiang Province and in Beijing
- Commence market studies on possible export of the Group's diabetic health products to Hong Kong and other Asian markets
- Open liaison office(s) in overseas market
- The plan of setting up 5 treatment centres was under negotiation with various hospitals in PRC
- Various sales centres were set up in Nanjing, Wuhan, Chongqing, Shenyang of which stationed staff carried out promotional activities
- 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 11 marketing and sales employees in Wan Tai and 55 sales staff in the Company as at 30 June 2003
- Branch office in Tianjin was established for Wan Tai and representative office in Beijing is planning to be opened
- Negotiation with Hong Kong enterprise already started for possible export of the Group's diabetic health products to Hong Kong
- Market study for overseas market commenced

**Business objectives as stated
in the prospectus dated 10 June 2002**

**Actual business progress up to
30 June 2003**

**Accelerating the commercialisation of
products developed**

- | | |
|---|---|
| <ul style="list-style-type: none">• 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 investment in the Proposed Plastic Joint Venture | <ul style="list-style-type: none">• Since the negotiation with potential joint venture partner could not arrive at any conclusion, production of medical grade sodium hyaluronate based on the technology already owned by the Group will be carried out by the Group instead of establishing a joint venture for such purpose
• Since the Proposed Sodium Hyaluronate Joint Venture had not been established, the investment in such joint venture was not completed
• Since the Proposed Sodium Hyaluronate Joint Venture had not been established, there was no production of sodium hyaluronate. The research and development of medical grade sodium hyaluronate shall be carried out by IBME in future under the guidance of Professor Gu and future production of this product will be performed by the Company
• Due to the change of market situation of which fierce competition of similar products in the market is anticipated, the set up of Proposed Plastic Joint Venture was stopped and investment was not completed |
|---|---|

	USE OF PROCEEDS AS STATED IN THE PROSPECTUS (RMB million)	ACTUAL AMOUNT UTILIZED UP TO 30 JUNE 2003 (RMB million)
Research and development	2.5	1.4
Expansion of production facilities	16.3	1.5
Expansion of marketing and distribution network	5.5	6.6
Accelerating the commercialisations of products	35.2	11.8
Establishment of treatment centres	5.0	0.0
Working capital	10.0	22.8
	<hr/>	<hr/>
TOTAL	74.5	44.1
	<hr/>	<hr/>

Due to changes in market situation and various other reasons as stated in the section headed “Comparison of Business Objectives with Actual Business Progress” of this report, the formations of the Proposed Tianjin Tongrentang Joint Venture, the Proposed Sodium Hyaluronate Joint Venture and the Proposed Plastic Joint Venture were not completed. The original plan of the application of fund for such purposes was changed. Apart from cash contribution of RMB8.3 million and RMB3.5 million for investing in new subsidiaries of “TEDAX2” and “Yisheng” respectively, the remaining proceeds had been used in the support of the working capital of the Group until 30 June 2003.

At the same time, the Group continued to expand its marketing and distribution network and thus RMB6.6 million was utilized up to 30 June 2003 as compared to the original budget of RMB5.5 million.

Due to the outbreak of SARS, the negotiations with various hospitals for the establishment of treatment centres have been delayed and once the negotiations resume, the utilization of proceeds for such purpose will be confirmed.

Directors' and Supervisors' interests in shares

As of 30 June 2003, the interests of the Directors of the Company and their respective associates in the Company and its associated corporations were as follows:

Long position in shares:

	Number of shares held and nature of interests					Percentage of the issued share capital
	Personal (note)	Family	Corporate	Other	Total	
Directors						
Professor Gu Hanqing	14,000,000	-	-	-	14,000,000	3.5%
Mr. Xie Kehua	9,000,000	-	-	-	9,000,000	3.25%

Note: All represented domestic shares

Save as disclosed in this paragraph, as at 30 June 2003, none of the Directors and Supervisors had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

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

As at 30 June 2003, the following persons (other than the directors and supervisors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:—

Long position in shares:

Name of shareholders	Capacity	Number of ordinary shares	Percentage of the issued share capital
Tianjin TEDA International Incubator	Beneficial owner	255,000,000 (Note 1)	63.75%
Mr. Wu Xiaofang	Beneficial owner	10,000,000 (Note 1)	2.5%
	Interest of a controlled corporation	10,000,000 (Notes 1 & 2)	2.5%

Notes:

1. All represented domestic shares
2. The 10,000,000 shares are owned by Tianjin TEDA Shuang You Technology Development Company Limited, 50% of the share capital of which is owned by Mr. Wu and he is deemed to have interest in such 10,000,000 shares pursuant to the provisions of the SFO.

Save as disclosed above, as at 30 June 2003, the Directors were not aware of any other person (other than the directors and supervisors of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

Sponsor's interest

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 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 the securities of the Company or any member of the Group as at 30 June 2003.

Competing Interests

During the six months ended 30 June 2003, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed or might compete with the business of the Group.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee of the Company were prepared and adopted with reference to “A Guide for the Formation of An Audit Committee” published by the Hong Kong 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 control and risk evaluation. The Audit 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. Three Audit Committee meetings were held during the six months ended 30 June 2003.

Share option scheme

During the six months ended 30 June 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 30 June 2003, none of the Directors or Supervisors or employees or other participants of the share option scheme had any right to acquire the H shares in the Company.

Purchase, sale or redemption of securities

During the six months ended 30 June 2003, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company’s shares.

Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules

For the six months ended 30 June 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 August 2003