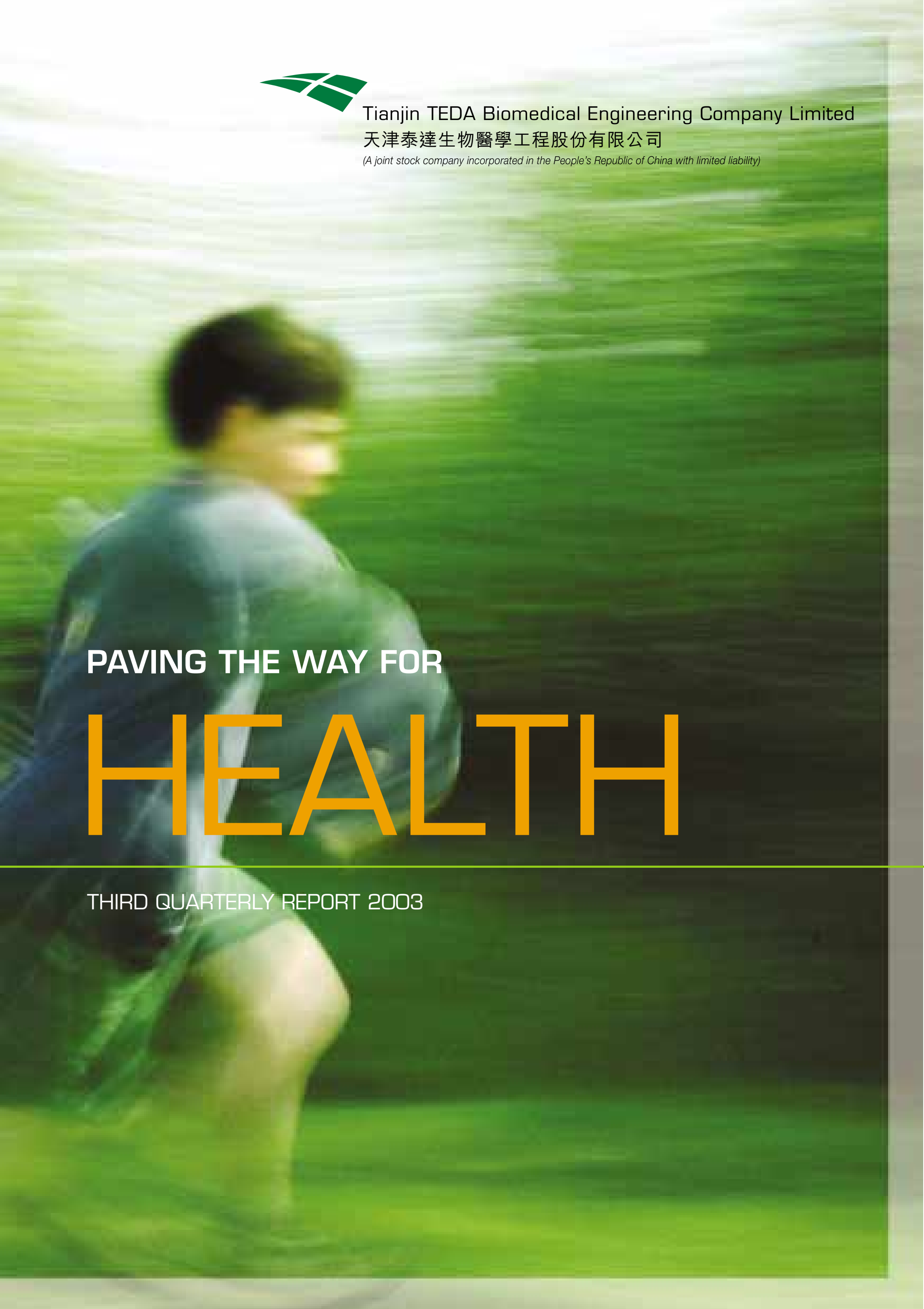
Tianjin TEDA Biomedical Engineering Company Limited
天津泰達生物醫學工程股份有限公司

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



# PAVING THE WAY FOR HEALTH

THIRD 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 88% over the corresponding period last year to approximately RMB41,113,000 for the nine months ended 30 September 2003.

- Gross profit grew by approximately 65% to RMB18,940,872.

- The main reason for the increase in sales turnover is the sales surge in medical equipment and the sale of milk powder for diabetic patients.

- Loss attributable to the shareholders was reduced by approximately 87% to RMB329,599 for the three months ended 30 September 2003 when compared to corresponding period last year.

- Loss attributable to shareholders for the nine months ended 30 September 2003 was RMB9,586,371, a 64% increase from the corresponding period last year.

## QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") is pleased to announce the unaudited quarterly results of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the three months and the nine months ended 30 September 2003, together with the comparative figures of the corresponding period in 2002 as follows:

| | Notes | For the three months ended 30 September 2003 *RMB* *(Unaudited)* | 2002 *RMB* *(Unaudited)* | For the nine months ended 30 September 2003 *RMB* *(Unaudited)* | 2002 *RMB* *(Unaudited)* |
|---|---|---|---|---|---|
| Turnover | *2* | 16,660,110 | 10,456,793 | 41,113,335 | 21,864,592 |
| *Less:* sales tax | | (4,310) | (23,938) | (84,068) | (37,957) |
| Cost of sales | | (9,334,544) | (4,934,852) | (22,088,395) | (10,374,325) |
| Gross profit | | 7,321,256 | 5,498,003 | 18,940,872 | 11,452,310 |
| Selling and distribution costs | | (4,869,315) | (3,267,363) | (13,104,805) | (7,584,836) |
| R&D and administrative expenses | | (3,839,799) | (4,856,986) | (16,399,388) | (9,555,094) |
| Operating loss | | (1,387,858) | (2,626,346) | (10,563,321) | (5,687,620) |
| Other income less other expenses | | 1,110,110 | 244,557 | 1,884,917 | 939,935 |
| Amortization on goodwill | | (76,469) | (42,624) | (228,179) | (159,416) |
| Finance expense | | (181,196) | (330,048) | (1,006,337) | (1,018,628) |
| Loss before tax | | (535,413) | (2,754,461) | (9,912,920) | (5,925,729) |
| Taxation | *3* | – | – | – | – |
| Loss after tax | | (535,413) | (2,754,461) | (9,912,920) | (5,925,729) |
| Minority interests | | 205,814 | 44,923 | 326,549 | 89,880 |
| Net loss attributable to the shareholders | | (329,599) | (2,709,538) | (9,586,371) | (5,835,849) |
| Loss per share – Basic | 4 | (0.082) cents | (0.677) cents | (2.397) cents | (1.724) cents |

*Notes:*

**1. Basis of presentation**

The principal accounting policies adopted in preparing the unaudited quarterly results are under historical cost convention and in accordance with the relevant 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 30 September** | | **For the nine months ended 30 September** | |
|---|---|---|---|---|
| | **2003** | **2002** | **2003** | **2002** |
| | *RMB* | *RMB* | *RMB* | *RMB* |
| Turnover: | | | | |
| Diabetic health products | 9,459,858 | 9,785,760 | 20,845,298 | 20,193,698 |
| Other medical & health products | 7,200,252 | 671,033 | 20,268,037 | 1,670,894 |

## 3. 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 September 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 TEDAX$^2$ Medical Engineering Company Limited ("TEDAX$^2$") 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, TEDAX$^2$ and Beijing Xinxing are new and high technology enterprises operating in Beijing New and High Technology Development Provisional Zone ("BNHTDPZ") and therefore entitled to a reduced EIT rate of 15%. TEDAX$^2$ is entitled to tax exemption for three years ending 31 December 2004. In addition, TEDAX$^2$ 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$Nil for the period ended 30 September 2003 (September 2002: HK$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 nine months ended** | |
|---|---|---|
| | **30 September 2003** *RMB* | **30 September 2002** *RMB* |
| Loss before tax | (9,912,920) | (5,925,729) |
| Tax at the Hong Kong income tax rate of 17.5% (2002: 16%) | (1,734,761) | (948,117) |
| Tax effect of different tax rate (at 33%) operating in the PRC | (1,536,503) | (1,007,374) |
| Effect of tax holiday exemption | (590,781) | (404,497) |
| Effect of the tax losses on consolidation | 4,438,111 | 2,307,381 |
| Tax effect of utilization of losses not previously recognized | – | – |
| Tax effect of income that are not assessable/expenses that are not deductible in determining taxable profit | (576,066) | 52,607 |
| Tax expense for the period | – | – |

*c.* *Deferred tax asset*

As of 30 September 2003, the Group had unused tax losses to be carried forward for setoff against future taxable profit. 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.

*d.* *Deferred tax liability*

As at 30 September 2003, no deferred tax liability has been recognized as the temporary differences are insignificant and it is possible that no such differences will reverse in the foreseeable future.

**4. Loss per share**

The calculation of the basic loss per share for the three months ended 30 September 2003 was based on the unaudited loss attributable to shareholders for the period of RMB329,599 (2002: RMB2,709,538) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2002: 400,000,000 shares).

The calculation of the basic loss per share for the nine months ended 30 September 2003 was based on the unaudited loss attributable to shareholders for the period of RMB9,586,371 (2002: RMB5,835,849) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2002: 338,461,540 shares).

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

## INTERIM DIVIDEND

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

## CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

| | **Share Capital** *RMB* | **Accumulated losses** *RMB* | **Capital reserve** *RMB* | **Total** *RMB* |
|---|---|---|---|---|
| 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) | 40,000,000 | (22,919,765) | 65,499,579 | 82,579,814 |
| Decrease in capital reserve | – | – | (404,455) | (404,455) |
| Net loss attributable to the shareholders for the three months ended 30 September 2002 | – | (2,709,538) | – | (2,709,538) |
| Balance as at 30 September 2002 (Unaudited) | 40,000,000 | (25,629,303) | 65,095,124 | 79,465,821 |
| 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 | – | (2,987,497) | – | (2,987,497) |
| 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 | – | (6,269,275) | – | (6,269,275) |
| Balance as at 30 June 2003 (Unaudited) | 40,000,000 | (42,899,073) | 64,573,355 | 61,674,282 |
| Net loss attributable to the shareholders for the three months ended 30 September 2003 | – | (329,599) | – | (329,599) |
| Balance as at 30 September 2003 (Unaudited) | 40,000,000 | (43,228,672) | 64,573,355 | 61,344,683 |

## MANAGEMENT DISCUSSION AND 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 pharmaceutical and diabetic health products.

After the successful victory of controlling the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the People's Republic of China (the "PRC"), the economy of the PRC had been recovered and continued to show a strong growth momentum.

Based on the recent trends, the demand for quality health products and biomedical equipment continues to increase in the PRC market. For the nine months ended 30 September 2003, turnover of the Group amounted to RMB41,113,335, representing an increase of 88% from the corresponding period of last year. The gross profit margin was 46% (2002: 52%) and the decrease in gross profit margin was mainly due to the strong competition in the PRC diabetic health products market and the sale of medical equipment to PRC hospitals. Under the existing market situation, the gross profit margin of the sale of large medical equipments to PRC hospitals would not exceed 37%.

For the nine months ended 30 September 2003, total gross profit surged to RMB18,940,872, representing an increase of 65% from the corresponding period of last year. Net loss attributable to shareholders also increased from RMB5,835,849 to RMB9,586,371, as a result of high costs for operational expenses and sales and marketing.

However, the net loss attributable to shareholders for the three months ended 30 September 2003 has shown an improvement of approximately 87% as compared to the same period of last year.

For the nine months ended 30 September 2003, the sale of (i) diabetic health products and (ii) other medical and health products contributed to 50.7% and 49.3% respectively to the Group's total turnover.

### Medical equipment and biomaterials

The Group continued to launch new medical equipment under "TEDA" brand name in the PRC. TEDAX[2], which is engaged in the manufacture and sale of medical equipment, brought to a total turnover of approximately RMB7,980,000 to the Group for the nine months ended 30 September 2003. The Group has also sold medical equipment to TEDA International Cardiovascular Hospital in Tianjin during the three months ended 30 September 2003, deriving a sales turnover of RMB7,350,000 and gross profit of approximately RMB2,762,000.

In October 2003, the Company purchased a manufacturing equipment from the United States for the production of surface modified intraocular lens. The manufacturing equipment is currently under installation and testing. Once those are finalized, the production capacity can be increased to 60,000 pieces per annum for the production of surface modified intraocular lens. It is expected that the Company will obtain the trial production certificate for F-Heparin surface modified intraocular lens in the first quarter of 2004 and therefore the new product of surface modified intraocular lens will be launched to the market next year.

**"ALPHA" health products**

For the nine months ended 30 September 2003, the turnover through the sale of Alpha products reached RMB20,845,298, representing an increase of approximately 3% from that of the corresponding period of 2002. The growth in turnover is mainly attributable to the steady demand of Alpha products after the successful establishment of "ALPHA" as one of the prestigious brands for diabetic health foods in the PRC.

During the three months ended 30 September 2003, there was a strong demand for "ALPHA" sugar-free mooncakes, like last year. With more and more people caring about their health after the SARS, the growth of the sale of sugar-free mooncakes is expected to increase in next year.

**Sales and Marketing**

*"Wan Tai"*

Tianjin Wan Tai Bio-development Company Limited ("Wan Tai") is presently focusing on exploring its marketing network in eastern regions, particularly in Wuhan, Tianjin and Hebei. It has participated in several hospital tenders and has successfully introduced CMI magnetic cardio graph instrument dedicated for treatment of heart and blood vessel diseases from the US into TEDA International Cardiovascular Hospital in Tianjin.

In addition to the sale of medical equipment, Wan Tai is also actively expanding services of domestic and foreign medical equipment, including excimer for ophthalmology, C-shaped arms and laser positioning system for orthopaedics, as well as imaging equipment for radiology. Its characteristics of product diversification and multi-discipline room operation have gradually placed itself into a well-poised position of one-stop purchasing service provider for hospitals.

Looking forward, apart from agency and marketing services of large medical equipment, Wan Tai will also diversify into marketing of consumables for ophthalmology, orthopaedics and radiology, for instance, hi-tech surface modified intraocular lens, blood dialysis consumables and regular catheters consumables developed by other members of the Group. It also engaged in agency services of hi-tech consumables for orthopaedics and imaging films, thus eliminating the effect of concentration of bulk equipment sales in the latter half of each year.

Wan Tai has secured a stronger sales platform and better performance by building up consumable marketing network and extending the existing marketing network from limited areas of Tianjin, Hebei, Wuhan, Shanxi to nationwide regions.

*"Yisheng"*

In August 2003, Tianjin Yisheng Bioengineering Co. Ltd. ("Yisheng") set up a marketing centre in Beijing. Apart from focusing on the sales of "Yisheng" products, the centre is also progressively seeking to obtain the agency right of prestigious branded domestic and foreign health care products in order to foster the setting up of an effective sales platform. With the support from the Beijing marketing centre, Yisheng will build up a sound terminal service system, e-commerce network and product intelligence training base, and carry out product marketing plans and nationwide business promotion activities.

Yisheng has launched sugar-reducing powder, "Jiang Tang Fu Li Kang Fen", during the first half of the year. Yet, sales performance of this product has been dampened due to the failure of its product positioning and the after-sales service in keeping pace with this product introduction and the outbreak of SARS. Product recovery was completed in the third quarter this year. We expect a second launch of this product in the fourth quarter this year through the establishment of the Beijing marketing centre and its professional operating team.

After the experience in the first half of the year, Yisheng has changed the sales model of health care products from the original traditional retail shop sale to the existing distribution sale through engaged distributors in order to reduce its operating risks and enhance sales volume and quality level.

To accommodate its future marketing model, "Yisheng" will continue to carry out research studies on edible fungi series products. Sample products have been confirmed in the third quarter. While recognizing sugar-reducing powder and "Yisheng" Coprinus Ovatus Chewing Tablets as its major products, Yisheng will also engage in research and development of other fungi series.

**Future Development**

With the support from the TEDA government, and leveraging on the comprehensive production facilities and extensive market network, the Group has become an operating entity integrating research and development, production and after-sales services, thereby forming a platform for further flourishing its corporate development.

As to product side, the Group has built up a more diversified portfolio of medical and health care products and greater customer satisfaction through constant research, development and production of biomedical engineering (BME) products and introduction of synergic products from internationally-renowned enterprises.

For market network expansion, the Group has established a strong sales system for medical monitoring products, biomaterials and other medical consumables by capitalizing on the expanding health care product network. For health care products, their focused markets are large and medium cities and eastern coastal regions. For medical products, the Group adopted an east-to-west penetration strategy in response to domestic medical reforms and the "developing western regions" policy.

The Group adheres itself to an operating direction of engaging in biotechnological industry and enhancing "TEDA" branded health products. The Group will select scientific research-based and more mature projects and strengthen external collaboration.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30 September 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 | | | | | |
|---|---|---|---|---|---|---|
| | **Personal** *(note)* | **Family** | **Corporate** | **Other** | **Total** | **Percentage of the issued share capital** |
| **Directors** | | | | | | |
| Gu Hanqing | 14,000,000 | – | – | – | 14,000,000 | 3.5% |
| Xie Kehua | 9,000,000 | – | – | – | 9,000,000 | 3.25% |

*Note:* All represented domestic shares.

Save as disclosed in this paragraph, as at 30 September 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 September 2003, the following persons (other than the directors and supervisors of the Company) had interests in the 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 September 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 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company.

## SPONSOR'S INTEREST

According to the notification from our sponsor, CSC Asia Limited, 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 September 2003.

## COMPETING INTERESTS

During the nine months ended 30 September 2003, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had any 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. Four Audit Committee meetings were held during the nine months ended 30 September 2003.

## SHARE OPTION SCHEME

During the period ended 30 September 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 September 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 nine months ended 30 September 2003, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares.

## PRACTICES AND PROCEDURES OF THE BOARD

For the nine months ended 30 September 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 November 2003