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)

Bearing the Essential Key to health and future

Annual Report 2003

Our Essential Key:

the usage of Biomedical Engineering

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

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Tianjin

key

Content

TEDA

Company Background:

Tianjin TEDA Biomedical Engineering Company Limited

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

Biomedical Equipment and Biomaterials

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

Natural Pharmaceuticals and Diabetic Health Products

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

Group Structure:

Tianjin TEDA Biomedical Engineering Company Limited

(principally engaged in the research and development of medical health products using technology in biomedical engineering discipline)

60%

Beijing TEDAX[2] Medical Engineering Company Limited

(principally engaged in the manufacture and sales of monitoring equipment including sleeping status equipment and the SRM multi-parameter medical monitor)

97%

Tianjin Wan Tai Bio-Development Company Limited

(principally engaged in the sales of medical products using technology in biomedical engineering discipline)

75%

Tianjin Alpha Health Care Products Co., Ltd.

(principally engaged in the manufacture and sales of diabetic health products, using technology in biomedical engineering discipline)

70%

Tianjin Yisheng Bioengineering Co., Ltd.*

(principally engaged in the manufacture of fungi health products, using technology in biomedical engineering discipline)

* A new subsidiary established on 17 February 2003

> CORPORATE INFORMATION

Executive Directors

Mr. Wang Shuxin
Mr. Xie Kehua
Professor Gu Hanqing
Ms. Zheng Dan

Non-executive Directors

Mr. Feng Enqing
Mr. Liu Zhenyu
Mr. Xie Guangbei

Independent Non-executive Directors

Professor Xian Guoming
Professor Xiao Zhuoji

Supervisors

Mr. Hao Zhihui
Mr. Yuan Wei

Independent Supervisors

Mr. Chang Zheng
Mr. Zhu Gang

Company Secretary

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

Qualified Accountant

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

Compliance Officer

Ms. Zheng Dan

Audit Committee

Professor Xiao Zhuoji
Professor Xan Guoming
Mr. Hao Zhihui

Authorized Representatives

Mr. Wang Shuxin
Ms. Zheng Dan

Registered Office

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

Auditors

PricewaterhouseCoopers

Head Office and Principal Place of Business

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

Hong Kong Representative Office

Suites 1501-1503, 15th Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Hong Kong Share Registrar and Transfer Office

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

Company Website

www.bioteda.com.cn

Stock Code

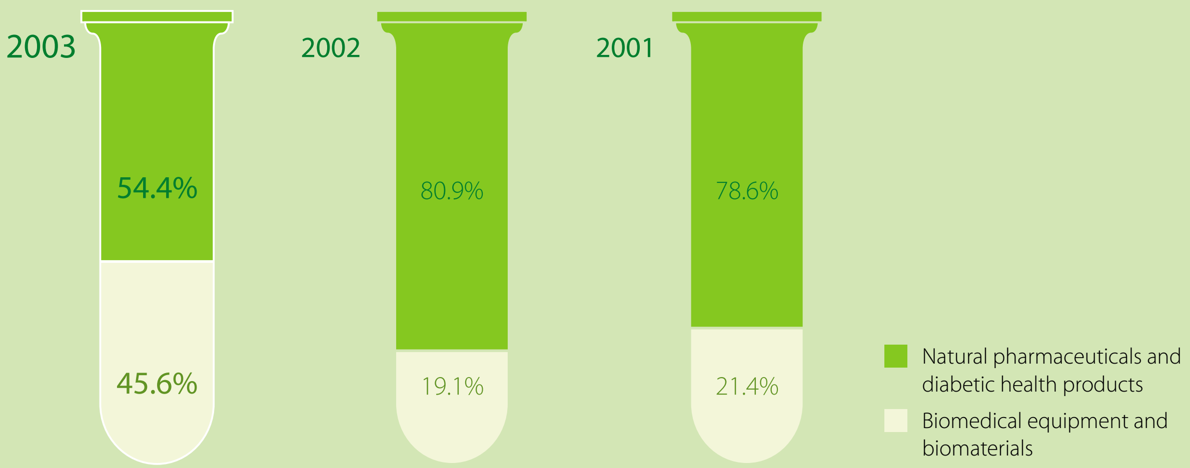
8189

> FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Results			
Turnover	**47,305**	30,431	25,526
Gross profit	**22,413**	14,785	12,131
Gross margin	**47.4%**	48.6%	47.5%
Loss attributable to shareholders	**(24,842)**	(13,849)	(9,856)
Loss per share	**(6.21) cents**	(3.96) cents	(3.29) cents

	As at 31 December		
	2003 RMB'000	2002 RMB'000	2001 RMB'000
Assets & Liabilities			
Total assets	**107,999**	117,051	43,512
Total liabilities	**61,910**	46,120	30,224
Shareholders' equity	**46,089**	70,931	13,288

Turnover Breakdown



Opening > the Wonders of Nature:

the market of medical and health products

food

medicine

life

health

Biomedical equipment, natural pharmaceuticals and diabetic health products, being the essential components of TEDA Biomedical's core business, have opened an immense biomedical product market. By combining precise scientific calculations with the wonders of nature, the Group's health food line is targeted at making life healthy and enjoyable products, includes tea, nuritious noodles, sugar-reducing biscuits, oatmeal, soluble tablets and even sugar-free mooncakes. We are now opening a brand new way to health and future.

Working for the Health of Mankind:

With the outbreak of SARS, 2003 was a very challenging year to TEDA Biomedical.

Dear Shareholders,

On behalf of the Board of Directors of the Company, I am pleased to present this annual report of TEDA Biomedical for the year ended 31 December 2003.

In this annual report, I will share with you a few thoughts about our business strategies and approaches instead of simply going through the financial figures. I believe by doing so, we shall be able to put things into perspective, giving our shareholders a better understanding of the year's results and the direction of TEDA Biomedical over the next few years.

Science Synchronized with Market Needs

To promote innovation and nurture the development of biological and information technology businesses, I helped found Tianjin TEDA International Incubator in 1996 which was a special high-tech incubator for science and technology professionals. Through this experience, I have witnessed the growth of many small- and medium-sized enterprises and better understood the challenges these companies envisaged. For these high-tech start-ups, success does not simply come from innovative ideas or aggressive research and development ("R&D") programs. Perhaps, the most important element is the ability to commercialize and market research results. In other words, science has to be in perfect harmony with market needs and demand.

Network Expansion Instrumental to Sales Growth

It is with this belief that TEDA Biomedical has focused great efforts on expanding its sales and marketing network over the past year, by utilizing the proceeds raised from its H shares listing in 2002. In August 2003, the Company set up a sales office in Beijing to coordinate the marketing of its medical and health-related products nationwide. Furthermore, to gear up sales and marketing of its health products, the Company took initiatives to establish direct links with major supermarket chains, especially in large cities such as Beijing, Shanghai, Tianjin, Nanjing and Zhengzhou including Hualian Supermarket, Lianhua Supermarket and Wal-Mart, which together operate more than 1,000 stores. Overall, the Company's health food products are available in more than 3,000 retail outlets across China.

Thanks to these efforts, TEDA Biomedical experienced a 272.2% surge in sales of medical equipment and other products while income from diabetic health products rose 4.4%, producing a combined turnover of RMB47.3 million, representing an approximately 55.5% increase as compared to RMB30.4 million recorded in 2002. For 2004, we expect our income growth to continue with the launch of some new products, made possible by the acceleration of our product commercialization program underway currently.

> CHAIRMAN'S STATEMENT

Product Commercialization Creates New Source of Income

As a listed biomedical company, TEDA Biomedical's mission is not only to produce end products that are beneficial to users, but also to generate value for its shareholders. Motivated by this philosophy, our R&D staff has worked hard to perfect new lines of medical equipment over the past year, with several products ready to be launched in 2004. We expect these new products will become a key growth engine for TEDA Biomedical.

One of the core products to be launched this year is the F-Heparin surface modified intraocular lens for cataract patients, which the Company expects to obtain a trial production certificate in April 2004. Early this year, the Company jointly organized a national cataract conference with the Second Affiliated Hospital of Harbin Medical University. The lens generated highly positive responses during the conference and the Company received many enquiries. We therefore plan to produce 40,000 pieces of such lens in 2004 if the trial production certificate is obtained on time. We intend to sell the lens with different standards at the prices ranging from RMB200 to RMB700. We believe this pricing strategy will be competitive with that of the lens imported from overseas, which is sold at more than 50% higher. There are about 5 million people suffering from cataracts in the PRC but only 600,000 related operations were performed last year partly due to the high cost of imported products. Thus, we believe there will be a positive demand for our more affordable lens which will be able to benefit a greater number of patients.

Furthermore, we plan to diversify our medical monitoring products this year. In particular, our R&D department has been modifying our monitors. The new model has incorporated integrated circuit technology and simpler functions, and our production costs become dramatically lower. We are setting a sales target of 800 new model monitors for the first product launch year. The Company also plans to launch sleeping monitors for the general consumer market in the second half of this year. This kind of monitor can detect a user's heart beating rate and breathing rate during sleeping time; if the rates drop below a prescribed level, an alarm attached to the monitor will sound giving a signal to the caretakers of the user.

Share Placement to Solidify Market Position

In December 2003, the Company announced a plan to raise at least HK$40 million through the placing of new H shares to institutional and individual investors. The proposed share placement arrangement was approved by the State-owned Assets Supervision and Administration Commission of the State Council, as well as our shareholders at the extraordinary general meetings in February 2004. The placing agent will finalize the placing price and the number of new H shares soon after the receipt of the approval of the China Securities Regulatory Commission. We believe this share placement will not only enlarge TEDA Biomedical's shareholder base and boost the liquidity of H shares, but also enhance the development of TEDA Biomedical and consolidate its leadership in respective areas in the PRC market. By allowing more investors to participate in the future development of TEDA Biomedical, they may share with us the prospective gains of our R&D in medical equipment and health products.

Ultimate Goal to Create Value for Shareholders

Overall, to reflect upon the year under review, I would say it comprised both challenges and opportunities. On the one hand, we have been concentrating on building strong sales and marketing networks as well as stepping up the progress of product commercialization, which will enhance the Company's profitability in 2004. On the other hand, the world was busy combating the outbreak of serious contagious diseases such as Severe Acute Respiratory Syndrome in early 2003 and avian influenza at the end of the year, both of which posed a dangerous threat to human lives. This situation calls for better medical facilities to strengthen the country's hospital and healthcare systems. TEDA Biomedical will continue to develop advanced medical equipment and health products in response to an increasingly health-conscious consumer culture. As the Group remains strongly committed itself to improve people's quality of life, we will also look into opportunities for developing personal-care and eco-friendly/eco-agricultural products, through which we will be able to create more value for shareholders. I believe our growth potential is limitless.

Last but not the least, I would like to express my sincere thanks to all our staff's dedication over the past years. With their unfailing support, I am confident that we will be able to create a prosperous future for our shareholders.

Wang Shuxin
Chairman

18 March 2004

Shaping > the Prominent Technologies:

the elite and equipment in TEDA Biomedical

medical

BME

X-ray

Cutting-edge medical monitoring equipment, clinical catheters and surface modified intraocular lenses, as parts of TEDA Biomedical's advanced technological development. To further shaping our competitiveness, we continue to establish strategic alliances with distinguished universities, research institutes and professional expertise in Biomedical Engineering. We are now paving a proficient way to health and future.

Working for the Health of Mankind:

Business Review

By the end of 2003, TEDA Biomedical has set up the marketing and sales team throughout the People's Republic of China ("PRC"). The mode of business has been differentiated into two areas namely, direct sales and distributor sales. The Group set up distributor network throughout the provinces of Shanxi, Hubei, Henan, Sichuan, Jiangsu, Inner Mongolia and the cities of Chongqing and Shanghai for the sale of medical equipment and accessories. For direct sales, the Group has set up the Beijing sales centre for promotion of fungi health products as well as other personal care products. In the past year, TEDA Biomedical developed itself as a market-oriented corporation which engaged in the production and sale of heath food products, natural fungi products and biomedical equipment.

Operating Environment

In 2003, most parts of the PRC were affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS") and the business environment was difficult. However, the PRC's economy continued to demonstrate a strong growth momentum after the effective control of the spreading of SARS in the second half of 2003. The sales of the Group's respiratory equipment and relevant medical monitoring equipment were increased in the SARS period. However, the sales of the Group's fungi product of "Jiang Tang Fu Li Kang Fen" were suffered from SARS when it was first launched to the market in the first half of 2003. Coupled with the failure of its product positioning and the after-sales service in keeping pace with this product introduction, the initial launching of such fungi product was not successful. The Group will re-launch this product under new packaging in the coming year.

The management of TEDA Biomedical is confident that the Group is able to convert R&D results into commercialized products, hence promoting its products nationwide through its established marketing and sales team. Taking the medical monitors as an example, the Group is planning to increase their sales by introducing new model and continue to promote the existing model in 2004. The two main streams of medical monitors were Sleeping Status monitors and SRM multi-parameter medical monitors. It is expected that the sales amount of such medical monitors would reach RMB20 million in 2004.

An integrated powerhouse develops series of medical and health products using biomedical engineering technologies.

If the trial production certificates for the surface modified intraocular lens ("IOL") for cataract patients are granted in early April 2004, the Group is planning to sell the various kinds of IOL from mid-April 2004. The Group expects to derive a total sales of approximately RMB1.8 million for IOL in 2004.

The Group's diabetic health products were experiencing a steady growth period, despite the adverse effect of SARS. These products are well received by the market due to "Alpha" brand name and the Group forecasts to achieve the sales target of RMB32 million in 2004.

Apart from the above, the direct sales sector shall capture total sales of approximately RMB20 million in 2004 through the professional sales team in Beijing sales centre. The sales personnel of medical equipment will also put greater effort to increase their contribution to the Group despite the fierce competition of medical equipment business in the PRC in the years to come.

Following the implementation of the sales strategies mentioned above and the achievable cost control measures, the management of the Group expects that there will be significant increase in sales and decrease in expenses in 2004.

Result Analysis

In 2003, the Group showed an improvement in sales. Turnover was approximately RMB47.3 million, representing an increase of 55% as compared to the same recorded in 2002, and the overall gross profit margin was slightly less than last year. However, the Group still recorded a total of approximately RMB24.8 million in loss attributable to shareholders, as a result of its investments to enhance R&D and to expand sales and marketing network for a better foundation of its profitability and a long-term development.

The Group will continue to launch medical equipment and biomaterials under the "TEDA" brand name. In February 2003, the Group invested RMB3.5 million to establish the subsidiary – Yisheng which is principally engaged in the manufacture of fungi health products. Subsequently, 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. The Chewing Tablet helps in strengthening the immune system of human body and has recently been launched in the PRC market. Since Yisheng is newly established, it is still in the preliminary stage of making contribution to the profit of the Group.

Alpha continued to be the Group's steady source of income and recorded approximately RMB25.7 million in turnover, or 4.4% higher than that of 2002, representing 54.4% of the total turnover in 2003. Due to the effect of SARS, the growth of Alpha's sales could not be directly compared to the previous year, but the overall situation could be maintained mainly attributable to its brand recognition. The new product of milk powder for diabetic patients was successfully launched in March 2003. The average gross profit margin of Alpha maintained at about 51%.

Apart from the steady sales of "Alpha" products, the Group also witnessed a promising development for its business of sleeping status analysis monitors. All of the above brought forth a steady revenue stream for the Group.

R&D Capabilities

Apart from the R&D core team which comprises 15 scientists under the leadership of Professor Gu Hanqing and Mr Xie Kehua, the Group also employs 14 professional consultants to advise the Group on its R&D projects. The management also works closely together with prominent universities and research institutes, including The Chinese Academy of Medical Science (Research Institute of Pharmaceuticals), Nankai University (Research Institute of Organic Chemicals), Tianjin University, etc.

> MANAGEMENT DISCUSSION AND ANALYSIS

In 2003, the Group has invested a total sum of RMB3.35 million, net of government grants of RMB1.15 million in research and development activities. The unique scientific research team allows the Group to surpass its peers in biomedical engineering and thus, fortifies the competitive edge of the Group.

Sales Highlights

Alpha's brand name has proved to be successful in the sugar-reducing foods market. It continued to launch new product such as milk powder for diabetic patients to the market in 2003. Not only has the Group expanded its marketing and sales network in the PRC, the Group had also started to take necessary steps for introducing "Alpha" products to Hong Kong. Currently, several "Alpha" products including nutritious noodles, sugar reducing biscuits, oatmeal and sweetener have been classified by the Department of Health of Hong Kong as non-pharmaceutical products not required to be registered under the Hong Kong Pharmacy and Poisons Regulations before they are allowed to be imported into Hong Kong.

After the set up of Yisheng in February 2003, the Group desired to launch the "Yisheng" brand by actively developing the over the counter ('OTC') channel and to position "Yisheng" as the sugar-reducing health foods in the high end market. Unfortunately, the sugar-reducing powder of "Jiang Tang Fu Li Kang Fen" launched by Yisheng was unsuccessful and the Group therefore changed the sales model from the original OTC channel to the existing distribution sale through engaged distributors. Coupled with the establishment of the Beijing sales centre, the launch of Yisheng products will be guided by professional sales operating team. To accommodate its future growth, Yisheng will commit to research and development of other fungi series.

Through the Group's subsidiary, TEDAX[2], the Group will develop a series of new products, including sleeping monitor and cardio sleeping status equipment etc. The ultimate goal is to place suitable products in the market that could be recognized by customers. The Group is also committed to participate in large-scale exhibitions and professional academic conferences for promoting products, collecting information and generating buying interest.

In 2003, the Group adopted an aggressive approach of selling medical equipment to PRC hospitals by cooperation with financial institutions in the PRC. As the hospital wished to repay the sales proceed to the Group by instalments over a time period of more than one year, the Group entered into an agreement with a PRC financial institution for factoring of such accounts receivable. A lump sum will be financed by the PRC financial institution for immediate settlement of the accounts receivable while the subsequent instalments would be paid by the hospital to the PRC financial institution direct while the interest will be charged by the PRC financial institution to the Group.

Financial Status and Assets Structure

Several products were launched in the past year, including milk powder for diabetic patients and "Jiang Tang Fu Li Kang Fun". Throughout the year, the Group witnessed product competition with its 'Alpha' and 'TEDA' products in the PRC. In addition, cost of sales and distribution and selling expenses increased from approximately RMB27,684,000 in 2002 to RMB42,130,000 in 2003. Among these costs, distribution and selling expenses climbed to RMB17,238,000, due to the increasing efforts in building the sales teams and expanding the sales network. In the coming year, the Group will adopt a more extensive and effective sales strategy, by customizing effective sales strategies to propel significant revenue growth. The Group will also try to enhance its logistics management and lower the cost for further profitability.

Administration and financial expenses of the Group increased 69% to approximately RMB28 million. The above expenses included bad debts and provision of bad debts of RMB4.0 million and inventory obsolescence and written off of RMB1.2 million charged in 2003. The Group will continue to abide by its stringent cost control measures and adopt the most cost-effective methods for daily operations.

Outlook

With the support of the government of TEDA, the Company aims to be the leader for the development and production of high quality and innovative medical and health products.

As a result of the outbreak of SARS, the increasing concern and awareness for personal hygiene and healthcare will enable the Group's research and development team to explore in the direction of developing new products for human body. This can be achieved by cooperation with universities and research institutions.

The Group will seek appropriate partners to assist in the commercialization of medical and health products whenever necessary and will further expand its sales and marketing network. Apart from that, the Group will also actively develop the market of diabetic health products as well as non-diabetic sugar-free health products since there will be a great opportunity available in such market.

Major Investment

The Group invested RMB3.5 million in February 2003 to establish a subsidiary named Tianjin Yisheng Bioengineering Co., Ltd. ('Yisheng') and owns a 70% stake. The core business of Yisheng is to manufacture fungi health products.

Segmental Information

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

The results of the Group segregated by segments during the year ended 31 December 2003 and the year ended 31 December 2002 are disclosed in Note 3 to the accompanying accounts.

Liquidity, Financial Resources and Gearing Ratio

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

As at 31 December 2003, the Group's consolidated shareholders' funds, current assets and net current assets were about RMB46.1 million (2002: RMB70.9 million), RMB75.7 million (2002: RMB93.7 million) and RMB21.2 million (2002: RMB53.1 million) respectively. The Group's current assets as at 31 December 2003 comprised mainly cash and bank balances of RMB12.9 million (2002: RMB40.5 million) and restricted deposit of RMB25.0 million (2002: RMB24.9 million) and inventories of RMB15.4 million (2002: RMB8.2 million).

As at 31 December 2003, the total bank borrowings for the Group amounted to RMB36.7 million (2002: RMB27.6 million). The bank borrowings are denominated in Renminbi and provided by various PRC licensed banks and bear fixed interest rates within the range from 5.31% to 6.903% (2002: 5.31% to 6.903%) per annum. The major portion of the bank borrowings which represents RMB22 million will be matured on 27 June 2004. The remaining portion which represents RMB14.7 million will be matured on variable dates from 26 May 2004 to 24 December 2004.

As at 31 December 2003, the Group's gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0.79 (2002: 0.39). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.40 (2002: 2.31).

> MANAGEMENT DISCUSSION AND ANALYSIS

Charges on the Group's Assets and Contingent Liabilities

As at 31 December 2003, restricted deposit of HK$23.5 million was pledged as security for granting of loans of RMB5 million to the Company and for the letter of credit facilities by a PRC licensed bank.

The Group had contingent liability of RMB3.74 million in connection with the factoring of accounts receivable to a financial institution in the PRC.

Investment Held and Material Acquisition and Disposals

For the year ended 31 December 2003, the Group did not have any substantial investment except the investment of RMB3.5 million in Yisheng. For the year ended 31 December 2003, the Group did not make any major acquisition and disposal of subsidiaries and affiliated companies (2002: The Group acquired 60% equity interest in TEDAX[2] and its wholly owned subsidiary, Beijing Xinxing for a consideration of RMB8.4 million). Except as stated in the statement of business objectives in the section headed "Business objectives" of the prospectus of the Company dated 10 June 2002, there is no plan for major investment or acquisition of capital assets as at 31 December 2003.

Employees and Remuneration Policies

As at 31 December 2003, the Group had 370 employees (2002: 344 employees). Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Pursuant to the PRC laws and regulations, the Group's local staff are entitled to join the social insurance schemes which include retirement scheme, medical scheme, unemployment insurance scheme and housing fund. Contributions are made by the Group to a government agency on a monthly basis. The government agency is responsible for the pension liabilities relating to such staff on their retirements and the Group has no other obligations in connection with the above disclosed. For the year ended 31 December 2003, the salary expenses of the Group (including emoluments of Directors and Supervisors) and pension costs were approximately RMB14.5 million (2002: RMB8.6 million) and RMB1.6 million (2002: RMB1 million) respectively. The increase in such expenses was mainly due to increase in number of employees and adjustment of salaries amounts.

Exposure to Foreign Currency Risk

The Group has no significant foreign currency risk since all the sales of the Group are domestic sales denominated in Renminbi and majority of the payables to suppliers are also denominated in Renminbi. Minority of the payables to suppliers are denominated either in Hong Kong Dollar or United States Dollar, the exchange rates of which remained quite stable with Renminbi during the year.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS:

A comparison of the business objectives as stated in the Company's prospectus with the Group's actual business progress for the twelve months ended 31 December 2003 is set out below:

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2003
R&D of new medical and health products:	
(a) Clinical catheters	
• Improve the bio-compatibility of catheters for medical use	Continued to improve the bio-compatibility of catheters for medical use
• Improve the bio-compatibility of anti-coagulant properties of catheters for medical investigation	Continued to improve the bio-compatibility of anti-coagulant properties of catheters for medical investigation
• Continued R&D of silicone rubber catheters and silicon rubber medical catheters	Continued R&D of silicone rubber catheters and silicon rubber medical catheters
(b) Dialysis equipment	
• R&D of resin for the absorption of organic phosphorous and the absorption of high lipemia	Continued R&D of resin for the absorption of organic phosphorous and the absorption of high lipemia
• R&D of absorption material for Bilirubin and absorption material for treating liver failure	Continued R&D of absorption material for Bilirubin and absorption material for treating liver failure
• Production permit obtained and production commenced for blood perfusion machine and blood plasma separation machine	The inspection result reports for blood perfusion machine and blood plasma separation machine were obtained in October 2002. Due to reorganization of State Food and Drugs Administration ("SFDA") of the PRC, trial production permit is expected to be granted in 2004

> COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2003
(c) Surface modified IOLs	
• Commence R&D of adaptive focus artificial lenses	Commenced R&D of adaptive focus artificial lenses
• Obtain trial production permit for titanium surface modified IOLs	Due to reorganization of SFDA, the trial production permit for titanium surface modified IOL is expected to be granted in 2004
• Continue R&D on surface modification engineering	Continued R&D on surface modification engineering
• Commence R&D of soft artificial lenses	Continued R&D of soft artificial lenses
(d) Sodium hyaluronate	
• Produce 1-2 new products such as eye drop and medical lavation	The production registration certificate for sodium hyaluronate under the name of TEDA Biomaterial and Medical Engineering Institute is in the process of transferring to the Company, therefore the development of new products was delayed
• Commence R&D relating to the application of sodium hyaluronate joint lubrication	Continued R&D relating to the application of sodium hyaluronate joint lubrication
• Commence R&D of sodium hyaluronate eye drops	R&D commenced relating to sodium hyaluronate eye drops
• Commence R&D relating to the application of sodium hyaluronate to fluids for medical uses and obtain trial production permit	R&D continued relating to the application of sodium hyaluronate to fluids for medical uses
(e) Breast implants	
• Obtain trial production certificate	Continued R&D on aquagel breast implants and therefore trial production certificate not yet obtained

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2003
(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 genetic treatment of liver disease	Commenced research on genetic treatment of liver disease
• Commence research on human liver cell growth reactor	Continued research on human liver cell growth reactor
(g) Medical monitoring systems	
• Commence R&D of respiratory monitors, and monitors enabling remote patient monitoring through internet-based networks	Continued R&D of respiratory monitors, and the R&D of monitors enabling remote patient monitoring through internet-based networks will be completed within 2004. Product registration certificate will be obtained in 2004
(h) Biological organic vanadium for diabetic patients	
• Continue and enhance R&D 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 R&D of Biological organic vanadium with the Pharmaceutical Research Centre of the PRC Science and Medical Institute and Nankai University
• Preparation for production of Biological organic vanadium	Since the R&D has not been completed, production of Biological organic vanadium was not prepared
• Registration of application for new Biological organic vanadium product	Since the R&D has not been completed, the product registration was not started
• Devise marketing strategies for Biological organic vanadium	Since the R&D has not been completed, the marketing strategies was not devised

> COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2003
(i) Milk powder for diabetic patients	
• Commence production of milk powder for diabetic patients	The production certificate of milk powder for diabetic patients was obtained and the product was launched to the market in March 2003
(j) Herbal research	
• Select herbs and plant extracts which have the effect of lowering glucose levels in the blood including garlic, Chinese goldthread bitter nelon, ginseng and commence R&D 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 R&D of its application in enhancing body strength when used by human beings. A subsidiary with an independent party was set up in February 2003 for the production and sales of such products
Develop strategic alliances	
• Active participation by the Group's professional personnel in seminars and conferences of related industries	The Group participated in the "National Medical Equipment Exhibition" in Chengdu and Nanjing in March 2003 and October 2003 respectively. Wan Tai's personnel also participated in the "Spring Exhibition of Medical Equipment of Shangdong Province" in March 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 Brentwood Inc. USA for distribution of their products in the PRC. Preliminary discussion with chain stores in Hong Kong was carried out for possible display of Alpha products in Hong Kong
Expansion of research facilities	
• Continue to enhance the Group's existing R&D facility	Continued to enhance existing R&D facility of the Group including the purchase of new R&D equipment
• Acquire lease of new premises in Tianda High Tech Park and equip premises for production of BME and other products	Approximately RMB3 million was expensed for the acquisition of production equipment for the production of BME and other products in 2003

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2003
Expansion of distribution network	
• Establish approximately a further 30 treatment centres	In 2003, most of the financial resources of hospitals were utilized for the prevention and treatment of SARS and therefore the establishment of treatment centres was delayed
• Progressively build up distribution network of medical and health products using technology in the Biomedical Engineering discipline (other than diabetic health products)	After the investment in TEDAX[2], the original distribution network developed by Xinxing group 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
• Establish marketing and liaison offices for the Group's diabetic health products in Harbin, Xian, Wuhan and Jinan	Established 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	There were 18 marketing and sales employees in Wan Tai and the Company as at 31 December 2003. Further recruitment of sales staff will commence in 2004 if necessary
• Open representative office for Wan Tai in Jilin, Heilongjiang, Liaoning, Guangdong, Fujian, Jiangsu, Zhejiang Provinces and in Beijing	Branch office in Tianjin was established for Wan Tai and representative offices in Hangzhou, Wuhan, Chongqing were opened
• Continue television advertising campaign for the Group's diabetic health products in a number of cities in the PRC	Continued television advertising campaign in Tianjin and TV advertising in Shanghai will also commence in 2004
• Commence market studies on possible export of the Group's diabetic health products to Hong Kong and other Asian countries	Market studies on possible export of the Group's diabetic health products to Hong Kong were commenced
• Open liaison office(s) in overseas market	Commenced feasibility study on the opening of liaison office(s) overseas

> COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2003
Accelerate the commercialisation of products developed	
• Upgrade facilities of the Proposed Tianjin Tongrentang Joint Venture & restructuring of its operation to meet GMP standards	Since the formation of the Proposed Tianjin Tongrentang Joint Venture was not completed as disclosed in the half-yearly report 2003, no restructuring of operation and upgrading of facilities were needed
• Processing of application for the production licence for Curcumin	Due to the restructuring of SFDA, the application for the production licence for Curcumin was delayed
• Further investment in production facilities of the Proposed Tianjin Tongrentang Joint Venture to prepare for the production of Curcumin	Since the production licence for Curcumin was not obtained, investment in production facilities had not been implemented
• Preparation of marketing for Curcumin prior to the commencement of its production	Since the production licence for Curcumin was not obtained, marketing of Curcumin had not yet commenced
• Investment in Joint Venture with Ningbo Development Zone Blood Purification Equipment Company to produce blood purification manufacturing equipment	Since Ningbo Development Zone Blood Purification Equipment Company was suffered from financial difficulties, the cooperation project for the production of blood purification manufacturing equipment was suspended
• Continue production of sodium hyaluronate through the Proposed Sodium Hyaluronate Joint Venture	Since the formation of Proposed Sodium Hyaluronate Joint Venture was not completed, there was no production of sodium hyaluronate
• Expansion of manufacturing of monitoring equipment through the Proposed Xinxing TEDA Joint Venture	Completed the expansion of manufacturing of monitoring equipment in TEDAX[2] such that the production capacity could exceed 1,000 units in 2004
• Carry out due diligence and negotiations in relation to the proposed joint venture with Mr. Shen Cun Zheng to produce diabetic treatment equipment	Due to unexpected difficulties encountered during the negotiation with Mr. Shen Cun Zheng, the plan of the formation of the proposed joint venture was abandoned
• Expand production of catheters through the Proposed Plastic Joint Venture	Since the set up of the Proposed Plastic joint Venture was stopped as disclosed in the half-yearly report 2003, there was no production of catheters

Use of Proceeds

The Company has raised net proceeds of RMB74.5 million from the issue of new H shares of the Company upon the listing of the Company on GEM in June 2002. Up to 31 December 2003, the Group has applied the net proceeds as follows:

(RMB million)	Use of proceeds as stated in the prospectus	Actual amount utilised up to 31 December 2003
Research and development	2.5	2.1
Expansion of production facilities	16.3	3.4
Expansion of marketing and distribution network	5.5	6.8
Accelerating the commericialisation of products	35.2	11.9
Establishment of treatment centres	5.0	0.0
Working Capital	10.0	24.7
Total	74.5	48.9

Due to changes in market situation and various other reasons as disclosed in the half-yearly report 2003, 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 RMB8.4 million and RMB3.5 million for investing in new subsidiaries of "TEDAX^2" and "Yisheng" respectively, the remaining proceeds had been used in the support of the working capital of the Group until 31 December 2003. Also due to the outbreak of SARS in 2003, the negotiations with various hospitals for the establishment of treatment centres have been delayed and once the negotiations resume in 2004, the utilization of proceeds for such purpose will be confirmed.

Nevertheless, the Group is still looking for investment in suitable new projects relating to the businesses of the Group in order to obtain best returns for the Shareholders. As disclosed in the Circular dated 19 December 2003 to the Shareholders, the Group will raise gross proceeds of not less than HK$40 million by placing of new H shares which shall not be more than 35% or less than 30% of the enlarged entire issued share capital of the Company.

As disclosed in the Circular, the minimum net proceeds of the placing after deducting necessary cost and expenses is estimated to be approximately HK$37.5 million (RMB39.7 million) of which HK$5 million (RMB5.3 million) will be used for expansion of marketing and distribution network, HK$6 million (RMB6.4 million) will be used for accelerating the commercialization of products and HK$26.5 million (RMB28 million) will be used for investment in suitable new projects.

> DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Wang Shuxin, aged 39, is the Chairman of the Board of Directors of the Company and is responsible for the Company's strategic planning and business development. Mr. Wang was instrumental in the establishment of TTII in April 1996 and has been IBME's legal representative since January 1998. He was appointed as Chairman of the Board of Directors in September 2000. Mr. Wang graduated from Tianjin University in 1988 with a master's degree in Organic Chemical Engineering. In February 1999, he obtained a post-graduate qualification in accounting from Tianjin Financial Institute of Finance and Economic. In 1997, Mr. Wang participated in the commercialisation of the technology relating to clinical catheters. He subsequently became involved in the establishment of IBME in January 1998 and received one of the Ten Outstanding Youth awards in 1998. In 1999, Mr. Wang led the establishment of an enterprise postdoctoral research workstation in TEDA. Mr. Wang has been the supervisor of TTII since 1996 and has held the position of Chairman of TTII since December 1997.

Mr. Xie Kehua, aged 47 is the director and general manager of Alpha. Mr. Xie graduated from Chinese Traditional Medicine Department of Heilongjiang Institute of Commerce in July 1982 with a bachelor degree. Mr. Xie was appointed as the chief engineer of the Chinese medicine factory under the Tianjin Chinese Medicine Group and was the supervisor of Hangzhou Wahaha Group Research and Development Centre . He was awarded the Best Scholar of New Products and became leader of the Initiation of Technology Development in 1992 and was further recognised as a senior engineer ,in 1995. Mr. Xie was appointed as one of the first directors and the first manager of Alpha in August 1994. Mr. Xie was appointed as an Executive Director in September 2000.

Professor Gu Hanqing, aged 58, obtained from Tianjin University master's degree in engineering and is a professor of Tianjin Medical University, a doctorate tutor and a part-time professor of the biomedical engineering faculty of Tianjin University. He is currently the director of the research department of the Tianjin Institute of Urological Surgery, and a research leader in IBME. He has participated in research work on biomaterials and products since completing his academic qualifications in 1966 and has received awards. Professor Gu joined IBME in January 1998 and became an Executive Director in September 2000.

Ms. Zheng Dan, aged 39, is the assistant general manager responsible for marketing activities of the Company. Ms. Zheng was responsible for TTII's management accounting, public accounting and financial management. Ms. Zheng started her professional career in 1988 and joined TTII in 1996. Ms. Zheng graduated from the Accounting Department of Tianjin Institute of Finance and Economic with a bachelor degree in economics in 1986. Ms. Zheng became an Executive Director in September 2000.

Non-executive Directors

Mr. Feng Enqing, aged 44, graduated from Tianjin Industrial University in 1982 with a degree in textile chemical engineering and joined TTII as the project manager in 1996. He was previously the supervisor and chief engineer of Tianjin Xinggang Textile Manufacture. Mr. Feng is a director of Alpha and the chief engineer of TTII. He joined the Company in September 2000.

Mr. Liu Zhenyu, aged 32, graduated from the Department of Political Science of Tianjin Normal University with a bachelor's degree in Law in 1995. In the same year, he joined TEDA Industrial Investment Company (天津開發區工業投資公司) as a legal advisor. In 2000, he worked for Tianjin TEDA Group Company Limited (天津泰達集團有限公司) as a project manager. Since 2002, he has become a director of 天津泰達股份有限公司 and the Deputy Manager of Asset Management Department of Tianjian TEDA Investment (Holding) Company Limited (天津泰達投資控股有限公司). He became a Non-executive Director in November 2003.

Mr. Xie Guangbei, aged 49, graduated from Nankai University in 1993 with a master's degree in Economics. In 1998, he was granted a MBA degree from Rensselaer Polytechnic Institute in Troy, New York, US. He is the investment and financial consultant of the Office of Residential Property Commercialization headed by the Ministry of Construction. He is also the vice chairman and president of Tianjin Securities Investment Consulting Company Limited. He was an engineer of the Business Department of China Shizheng Huabei College of Design, director and deputy general manager and senior engineer of Tianjin Eastern International Engineering Consultancy. He joined the Company in November 2000.

Independent Non-executive Directors

Professor Xiao Zhouji, aged 70, currently the professor of the Faculty of Economics of the Beijing University and a doctorate tutor, the Member of Standing Committee of the Tenth National Committee of the Chinese People's Political Consultative Conference, He is also an independent director of China International Marine Containers Co., Ltd. (中國國際海運集裝箱股份有限公司) and an independent director of Shenzhen Konka Co., Ltd. (深圳康佳股份有限公司).

Professor Xian Guoming, aged 49, is a professor of Nankai University and the tutor of candidates pursuing the doctoral degree. He is the head of the Teda Faculty of Nankai University, and the director of Research Center of Multi-national Corporations of Nankai University. Professor Xan also acts as the deputy secretary of China Academy of Global Economics, and as an independent director of Yifangda Funds Management Company and Nankai Gede Co., Ltd. He specialises in research on international investments by multinational corporations. He was appointed as an Independent Non-executive Director in August 2001.

Supervisors

Mr. Hao Zhihui, aged 42, is the chairman of Supervisor's Board. Mr. Hao graduated from Tianjin Medical University in 1992 with master's degree in medicine. Mr. Hao joined TTII in September 1997, and is presently Chief of the Medicine Industry Department and is responsible for the supervision of TTII's Medical Industry Department. He participated in strategic research on the bio-medical's industry development in TEDA and is mainly responsible for the management of the research and development of curcumin. Mr. Hao is a director of Alpha, and Tianjin Tetrahredron Chemical Co., Ltd. He joined the Company in September 2000.

Mr. Yuan Wei, aged 52, graduated from the Tianjin School of Chinese Traditional Medicine in 1975. He previously held the position of head of quality control at the Tianjin Chinese Medicine Plan before joining Alpha in August 1994. He is currently the administrative officer of Alpha. Mr. Yuan was appointed as Supervisor in September 2000.

Independent Supervisors

Mr. Chang Zheng, aged 35, graduated from the Accounting Department of Tianjin Institute of Finance and Economic in 1991 with a bachelor's degree in Economics. He was previously a financial manager at Sino-American Tianjin Yousheng Industry Co., Ltd.. He joined TTII in June 1999, and is the head of the Finance Department of TTII. Mr. Chang was appointed as Supervisor in September 2000.

Mr. Zhu Gang, aged 39, graduated from Tianjin University in 1993 with a master's degree in Management Engineering. He is a certified public accountant in the PRC and obtained PRC registration in account and securities auditing in 1999. Mr. Zhu was the president of Tianjin Chuangxin Investment Management Co. and was employed as the general manager of Tianjin Songde Certified Public Accountant in 1997 and has considerable experience in accounting and management finance.

Senior Management

Qualified Accountant, Financial Controller and Company Secretary

Mr. Yip Pak Shing, Edmund, aged 48, graduated from the Chinese University of Hong Kong in 1979 with a bachelor's degree in Business Administration. He is a certified accountant in Hong Kong, Canada and the United Kingdom. Mr. Yip had 4 years of working experience in international accounting firms, and subsequently worked as the Chief Accountant in various private companies in Hong Kong and Canada. From 1995, Mr. Yip worked as a financial controller of joint venture companies established by multinational corporations in the PRC before joining the Group in October 2000.

The Directors submit their report together with the audited accounts of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2003.

Principal Activities and Geographical Analysis of Operations

The principal activities of the Company are investment holding, research, development, manufacturing, marketing and sales of biomedical equipment and biomaterials. The activities of the subsidiaries are set out in Note 15 to the accompanying accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 3 to the accompanying accounts.

Change of Company Legal Status and Share Capital

On 24 March 2003, the Tianjin Administration of Industry and Commerce issued a business licence certifying that the legal status of the Company was changed to a sino-foreign joint stock company with limited liability listed in Hong Kong.

There was no change to both registered capital and paid-up capital of the Company of RMB40,000,000. Details of the movements in share capital of the Company are set out in Note 26(a) to the accompanying accounts.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 40 of this annual report.

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

Reserves

Movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity on pages 45 and 46 of this annual report respectively.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in Note 12 to the accompanying accounts.

Donations

Donations made by the Group during the year amounted to approximately RMB100,000.

Distribution of Profits

Information about the Company's distribution of profits are set out in Note 28 to the accompanying accounts.

Pre-emptive Right

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

Three-year Financial Summary

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

Purchase, Sale or Redemption of Securities

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year.

Directors and Supervisors

The Directors and Supervisors during the year were:

Executive Directors:

Mr. Wang Shuxin *(王書新)*	
Mr. He Ning *(何寧)*	(resigned on 17 September 2003)
Mr. Xie Kehua *(謝克華)*	
Professor Gu Hanqing *(顧漢卿教授)*	
Ms. Zheng Dan *(鄭丹)*	

Non-executive Directors:

Mr. Feng Enqing *(馮恩慶)*	
Mr. Li Qingyu *(李青宇)*	(resigned on 17 November 2003)
Professor Du Zhi *(杜智教授)*	(resigned on 17 November 2003)
Professor Sun Zhiyuan *(孫致遠教授)*	(resigned on 17 November 2003)
Mr. Liu Zhenyu *(劉振宇)*	(appointed on 17 November 2003)
Mr. Xie Guangbei *(謝光北)*	(appointed on 17 November 2003)

Independent Non-executive Directors:

Professor Xian Guoming *(冼國明教授)*	
Professor Xiao Zhuoji *(蕭灼基教授)*	(appointed on 17 January 2003)

Supervisors:

Mr. Hao Zhihui *(郝志輝)*	
Mr. Yuan Wei *(袁偉)*	
Mr. Chang Zheng *(常崢)*	(resigned on 17 November 2003)

Independent Supervisors:

Mr. Chang Zheng *(常崢)*	(appointed on 17 November 2003)
Mr. Zhu Gang *(祝剛)*	
Mr. Xie Guangbei *(謝光北)*	(resigned on 17 November 2003)

Directors and Supervisors *(Continued)*

After the resignation of Mr. He Ning as Executive Director, the number of Executive Directors of the Company reduced to four. After the resignation of Mr. Li Qingyu, Professor Du Zhi and Professor Sun Zhiyuan and the appointment of Mr. Liu Zhenyu and Mr. Xie Guangbei as Non-executive Directors, the number of Non-executive Directors reduced to three.

After the resignation of Mr. Xie Guangbei as Independent Supervisor, the number of Supervisors reduced to four. At the same time, Mr. Chang Zheng was changed from a Supervisor to an Independent Supervisor.

After the resignation of Mr. Shan Ping as Independent Non-executive Director in November 2002, Professor Xiao Zhuoji was appointed as Independent Non-executive Director in January 2003 such that the number of Independent Non-executive Director maintained at two.

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

Directors' and Supervisors' Service Contracts

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

(i) Each service contract (except for Mr. Liu Zhenyu, Mr. Xie Guangbei, Professor Xiao Zhuoji and Mr. Chang Zheng) is for an initial term of three years commencing on 1 January 2002 and thereafter subject to the approval of the shareholders' meeting of the Company, each service contract may be renewed for three years;

(ii) The service contracts of Mr. Liu Zhenyu and Mr. Xie Guangbei are for an initial term of more than one year, commencing on 17 November 2003 and expiring on 31 December 2004 and thereafter subject to the approval of the shareholders' meeting of the Company, may be renewed for three years;

(iii) The service contract of Professor Xiao Zhuoji is for an initial term of three years commencing on 17 January 2003 and thereafter subject to the approval of the shareholders' meeting of the Company, may be renewed for three years;

(iv) The service contract of Mr. Chang Zheng is for an initial term of more than one year, commencing on 17 November 2003 and expiring on 31 December 2004 and thereafter subject to the approval of the shareholders' meeting of the Company, may be renewed for three years.

(v) Subject to resolution passed at shareholders' meeting of the Company, the remuneration of each of the Directors and Supervisors may be changed;

Directors' and Supervisors' Service Contracts *(Continued)*

(vi) The basic annual salaries of each of the Directors and Supervisors are as follows:

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

	RMB
Mr. Wang Shuxin	620,544
Ms. Zheng Dan	318,400
Mr. Xie Kehua	210,000
Professor Gu Hanqing	150,000
Mr. He Ning	150,000

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

	RMB
Mr. Feng Enqing	30,000
Mr. Li Qingyu	70,000
Professor Du Zhi	30,000
Professor Sun Zhiyuan	30,000
Mr. Liu Zhenyu	30,000
Mr. Xie Guangbei	30,000

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

	RMB
Professor Xiao Zhuoji	100,000
Professor Xian Guoming	30,000

The basic annual salaries of the Supervisors and Independent Supervisors are as follows:

	RMB
Mr. Hao Zhihui	125,000
Mr. Yuan Wei	20,000
Mr. Chang Zheng	20,000
Mr. Zhu Gang	20,000
Mr. Xie Guangbei	20,000

(vii) Each of the Directors and Supervisors is entitled to out-of-pocket expenses reasonably incurred during his/her term of office.

Directors' and Supervisors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, its fellow subsidiaries or its holding company was a party and in which any of the Company's Directors, Supervisors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical Details of Directors, Supervisors, Company Secretary and Qualified Accountant

Brief biographical details of Directors, Supervisors, Company Secretary and Qualified Accountant are set out on pages 26 to 27 of this annual report.

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2003, the interests of the Directors and Supervisors of the Company and their respective associates in the shares of the Company and its associated corporations were as follows:

Long positions in ordinary shares of RMB0.1 each in the Company:

	Number of shares held and nature of interests					
	Personal (note)	Family	Corporate	Other	Total	Percentage of the issued share capital
Directors						
Professor Gu Hanqing	14,000,000	–	–	–	14,000,000	3.5%
Mr. Xie Kehua	9,000,000	–	–	–	9,000,000	2.25%

Note: All represented domestic shares.

Save as disclosed in this paragraph, as at 31 December 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 year was the Company, its subsidiaries or its holding company 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 31 December 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 ordinary shares of RMB0.1 each in the Company:

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 Xiaofang 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 31 December 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

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 until 31 December 2004 and the Company shall pay an agreed fee to CSC Asia Limited for its provision of services.

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 31 December 2003.

Placing Arrangement

On 3 December 2003, the Company signed a placing mandate with Sun Hung Kai International Limited ("SHK"), after the approval by the Board of Directors, under which SHK has been authorized to place not more than 35% or less than 30% of the entire issued share capital of the Company to raise gross proceeds of not less than HK$40,000,000 for the Company.

On 19 December 2003, a Circular was issued to all shareholders of the Company in connection with the proposed major transaction relating to proposed placing of new H shares and proposed specific mandate for the issue of new H shares. Under the Circular, notice were given to the shareholders of the Company for holding of an extraordinary general meeting ("EGM") for passing of the special resolution of allotting, issuing and dealing of such new H shares subject to the terms and conditions of the above placing mandate.

Placing Arrangement *(Continued)*

At the EGM held on 2 February 2004, the shareholders of the Company passed the resolutions in respect of: (i) the Specific Mandate; (ii) the use of the proceeds raised under the placing; (iii) the amendments to the Articles of Association of the Company and (iv) the placing as a possible major transaction of the Company within the meaning of the GEM Listing Rules. At each of the Domestic Shareholders' meeting and the H Sharesholders' meeting held on the same day, the holders of Domestic Shares and of H Shares respectively have also passed the resolutions in respect of (i) the Specific Mandate; (ii) the use of the proceeds raised under the placing; and (iii) the amendments to the Articles of Association of the Company.

Pursuant to the State-owned Shares Reduction Regulations, TTII is required to convert such number of its Domestic shares equivalent to 10% of the Company's proceeds from the placing into the Sale H Shares. All the proceeds from the placing of Sale H Shares will be turned over to the National Society Security Fund. On 3 February 2004, the State-owned Assets Supervision and Administration Commission of the State Council of the PRC ("SASAC") issued a confirmation letter to China Securities Regulatory Commission ("CSRC") of the PRC for the approval of the shares reduction plan submitted by TTII and the turnover of 10% of the Company's proceeds to the National Society Security Fund.

The placing price of the new H shares will be within the range from HK$0.186 to HK$0.233 and once the Underwriting Agreement with SHK is finalised, the amount of the placing price will be set out in the relevant Underwriting Agreement.

Management Contracts

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

Competing Interests

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

Major Customers and Suppliers

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

Purchases	
– the largest supplier	16%
– five largest suppliers combined	48%
Sales	
– the largest customer	18%
– five largest customers combined	36%

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

Connected Transactions

Significant related party transactions entered by the Group during the year ended 31 December 2003, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in Note 31 to the accompanying accounts.

Set Up of New Subsidiary

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

Board Practices and Procedures

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

Share Option Scheme

Pursuant to the Company's share option scheme (the "Scheme") conditionally approved by a resolution of the shareholders of the Company dated 25 May 2002, the Company may grant options to full-time key employees of the Group to subscribe H Shares in the Company subjected to the terms and conditions stipulated therein. The Scheme is conditional on (i) the CSRC or other relevant government authorities in the PRC granting approval of the Scheme and any options which may be granted thereunder and the issuing of the new shares upon an exercise of the options granted under the Scheme; and (ii) the GEM Listing committee of the Stock Exchange granting approval of the Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Scheme.

Summary of details of the Scheme is as follows:

- Purpose: To give incentives and rewards to selected employees and to keep them in the Group in order to maintain steady long-term development of the Group.

- Participants: Full-time key employees including any Executive Directors of the Company and its subsidiaries who have been working for the Company or its subsidiaries for one or over one year and have shown good or outstanding performance for employees who are PRC nationals and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

  (i) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H shares or any laws and regulations with similar effects have been abolished or removed; and

  (ii) The China Securities Regulatory Committee or other relevant government authorities in the PRC have approved the new issue of shares upon the exercise of any options which may be granted under the scheme.

  No options had been granted by the Company under the Scheme since its adoption.

Share Option Scheme *(Continued)*

• Total number of ordinary shares available for issue	10,000,000 H Shares
• Percentage of the issued share capital that it represents as at the date of the annual report	10% of issued H Shares
• Maximum entitlement of each participant	1% of the H Shares in issue at the date of grant in any 12-month period (including both exercised and outstanding options).
• Period within which the securities must be taken up under an option	10 years commencing on the date of grant.
• Minimum period for which an option must be held before it can be exercised	Not applicable.
• Amount payable on acceptance of the option	HK$10 on acceptance of the option offer.
• Period within which payments/ calls/loans must be made/repaid	Not applicable.
• Basis of determination of the exercise price	The higher of (i) the closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day, (ii) the average closing prices of the H Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceeding the date of offer and (iii) the nominal value of a H Share.
• The remaining life of the Scheme	The Scheme remains in force until 24 May 2012 unless otherwise terminated under the terms of the Scheme.

During the year ended 31 December 2003, none of the Directors or Supervisors or employees or other participants of the Scheme was granted with options to subscribe for the H Shares of the Company.

Audit Committee

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

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors, namely Professor Xiao Zhuoji and Professor Xian Guoming, and Mr. Hao Zhihui, who is a Supervisor of the Company. Four meetings were held during the current financial year.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Wang Shuxin

Chairman

Tianjin, the PRC, 18 March 2004

Dear shareholders,

Strictly in accordance with the requirements of the Company Law of the People's Republic of China (the "Company Law") and the Articles of Association of the Company (the "Articles of Association"), the Supervisory Committee of 2003 performed its supervisory duties on the principle of integrity in order to protect the interests of shareholders and the Company as a whole and proceeded with its supervisory duties cautiously.

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

On 18 March 2004, the first meeting of the Second Supervisory Committee of the Company was convened at the conference room of the Company. The meeting considered and approved:

1. the consolidated accounts of the Group for the year ended 31 December 2003 audited by PricewaterhouseCoopers.

2. the use of proceeds.

II. PERFORMANCE OF THE SUPERVISORY COMMITTEE DURING THE REPORTING YEAR

During the reporting year, the Supervisory Committee of the Company attended all the board meetings for the year 2003. Moreover, they also carefully supervised and examined the Company's financial position, operational decisions of the management, lawful operations of the Company and the acts of the Directors and the senior management in the operations. The Supervisory Committee considered that:

1. no violation of the Company Law, the Articles of Association and the laws and regulations of the PRC had arisen in the operating activities of the Group.

2. during the course of performing their duties for 2003, the Directors and the senior management had faithfully discharged their duties, observed the laws in operations, worked faithfully for the Company and exercised diligence in the performance of tasks. This is evidenced by the response of the management of the Company to the adverse effects of SARS. Leveraging on the strength of the Company, the management of the Company looked at the said problem objectively and adopted decisive measures and steps to tackle it. They respected and protected the interests of the shareholders as a whole. No acts of violation of the Company Law, the Articles of Association and the laws and regulations of the PRC had occurred.

3. the accounts audited by PricewaterhouseCoopers have truly and fairly reflected the Group's and the Company's financial positions and operation results.

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

18 March 2004

Auditors' report to the shareholders of Tianjin TEDA Biomedical Engineering Company Limited

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

We have audited the accounts on pages 40 to 90 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of Opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2003 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 March 2004

> CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Note	2003 RMB	2002 RMB
Turnover	3(a)	47,304,980	30,431,095
Cost of sales		(24,892,161)	(15,645,728)
Gross profit		22,412,819	14,785,367
Other revenues	3(a)	1,296,154	1,199,764
Distribution and selling expenses		(17,238,078)	(12,037,862)
Administrative expenses		(27,108,257)	(15,302,185)
Research and development expenses, net of government grants of RMB1,150,000 (2002: RMB803,856)		(3,354,001)	(1,103,095)
Amortisation of goodwill on consolidation	14	(403,419)	(262,683)
Operating loss	4	(24,394,782)	(12,720,694)
Finance costs	5	(894,214)	(1,248,771)
Loss before taxation		(25,288,996)	(13,969,465)
Taxation	6(a)	–	–
Loss after taxation		(25,288,996)	(13,969,465)
Minority interests	27(d)	447,217	120,618
Loss attributable to shareholders	7	(24,841,779)	(13,848,847)
Loss per share – basic	9	(6.21) cents	(3.96) cents

> CONSOLIDATED BALANCE SHEET

As at 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Note	2003 RMB	2002 RMB
Non-current assets			
Property, plant and equipment	12	15,574,287	14,389,361
Proprietary technologies	13	3,153,436	4,033,436
Goodwill on consolidation	14	4,665,277	4,968,696
Trade receivable, non-current	17(b)	6,823,831	–
Other receivable, non-current	18(a)	2,131,430	–
		32,348,261	23,391,493
Current assets			
Inventories	16	15,392,467	8,193,213
Trade receivables	17	9,223,018	9,494,277
Prepayments and other receivables	18	8,042,037	8,885,934
Value-added tax ("VAT") recoverable	6(c)	1,475,520	245,859
Due from Tianjin TEDA International Incubator ("TTII")	19	1,724,194	1,096,266
Due from minority shareholders of subsidiaries	19	1,799,128	259,350
Due from Directors	20	38,076	20,754
Restricted deposit	21	25,043,950	24,935,850
Cash and bank balances		12,912,756	40,527,637
		75,651,146	93,659,140
Current liabilities			
Trade payables	22	2,200,871	1,630,259
Other payables and accruals	10(b)	11,783,039	6,867,652
Government grants received in advance		1,402,008	1,852,008
VAT payable	6(c)	408,044	117,412
Due to the sole investor of TTII	19	500,004	147,060
Due to a minority shareholder of a subsidiary	19	5,756	–
Due to Directors and Supervisors	20	166,250	51,505
Short-term bank borrowings	23	36,700,000	27,600,000
Current portion of finance lease payable	24	168,815	–
Current portion of other long-term liabilities	25	1,144,286	2,244,286
		54,479,073	40,510,182
Net current assets		21,172,073	53,148,958
Total assets less current liabilities		53,520,334	76,540,451

As at 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Note	2003 RMB	2002 RMB
Financed by:			
Share capital	26(a)	**40,000,000**	40,000,000
Share premium		**62,031,951**	62,031,951
Capital reserve		**2,541,404**	2,541,404
Accumulated losses		**(58,484,080)**	(33,642,301)
Shareholders' funds		**46,089,275**	70,931,054
Minority interests	27(d)	**5,962,180**	4,909,397
Finance lease payable	24	**1,468,879**	–
Other long-term liabilities	25	**–**	700,000
		53,520,334	76,540,451

Wang Shuxin
Director

Xie Kehua
Director

> BALANCE SHEET

As at 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Note	2003 RMB	2002 RMB
Non-current assets			
Property, plant and equipment	12	7,419,333	5,676,054
Interests in subsidiaries	15	40,432,837	26,624,172
Other receivable, non-current	18(a)	2,131,430	–
		49,983,600	32,300,226
Current assets			
Inventories	16	2,484,400	1,256,965
Trade receivables	17	51,482	456,442
Prepayments and other receivables	18	5,300,464	6,684,273
VAT recoverable	6(c)	596,420	106,902
Due from TTII	19	1,723,694	1,095,766
Prepayment to a minority shareholder of a subsidiary for inventory purchase	19	1,499,128	–
Due from Directors	20	30,662	20,754
Restricted deposit	21	25,043,950	24,935,850
Cash and bank balances		6,976,081	29,356,090
		43,706,281	63,913,042
Current liabilities			
Trade payables	22	209,027	469,026
Other payables and accruals	10(b)	5,553,288	3,076,248
Due to the sole investor of TTII	19	500,004	147,060
Due to Directors and Supervisors	20	166,250	51,505
Short-term bank borrowings	23	32,000,000	20,000,000
Current portion of finance lease payable	24	168,815	–
Current portion of other long-term liabilities	25	944,286	944,286
		39,541,670	24,688,125
Net current assets		4,164,611	39,224,917
Total assets less current liabilities		54,148,211	71,525,143

> BALANCE SHEET *(Continued)*

As at 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Note	2003 RMB	2002 RMB
Financed by:			
Share capital	26(a)	**40,000,000**	40,000,000
Share premium		**62,031,951**	62,031,951
Capital reserve		**(2,312,483)**	(2,312,483)
Accumulated losses		**(47,040,136)**	(28,194,325)
Shareholders' funds		**52,679,332**	71,525,143
Finance lease payable	24	**1,468,879**	–
		54,148,211	71,525,143

Wang Shuxin
Director

Xie Kehua
Director

> CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Share capital RMB	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Total RMB
Balance as at 1 January 2002	30,000,000	–	3,081,404	(19,793,454)	13,287,950
Issue of shares (Note 26(a)(ii))	10,000,000	93,938,800	–	–	103,938,800
Share issuance expenses	–	(31,906,849)	–	–	(31,906,849)
Adjustment to value of assets contributed by minority shareholders (Note)	–	–	(540,000)	–	(540,000)
Loss attributable to shareholders	–	–	–	(13,848,847)	(13,848,847)
Balance as at 31 December 2002	40,000,000	62,031,951	2,541,404	(33,642,301)	70,931,054
Loss attributable to shareholders	–	–	–	(24,841,779)	(24,841,779)
Balance as at 31 December 2003	**40,000,000**	**62,031,951**	**2,541,404**	**(58,484,080)**	**46,089,275**

Note

During 2002, three proprietary technologies of minority shareholders of Beijing TEDAX^2 Medical Engineering Company Limited ("TEDAX^2") at appraised value of RMB5,648,800 were transferred to TEDAX^2 in exchange for its share capital of RMB4,900,000.

The appraised value of RMB5,648,800 was determined based on the appraisal performed by a PRC appraiser. However, with reference to the appraisal done by an international appraiser on these proprietary technologies, the total value would be RMB4,000,000, which has a difference in amount of RMB900,000 from the nominal value of the share issued by TEDAX^2 to the minority shareholders. An amount of RMB540,000, which represents the Group's 60% share of the difference of RMB900,000, has been recorded as a deduction to the capital reserve account of the Group.

> STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Share capital RMB	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Total RMB
Balance as at 1 January 2002	30,000,000	–	(2,312,483)	(16,932,302)	10,755,215
Issue of shares (Note 26(a)(ii))	10,000,000	93,938,800	–	–	103,938,800
Share issuance expenses	–	(31,906,849)	–	–	(31,906,849)
Loss attributable to shareholders	–	–	–	(11,262,023)	(11,262,023)
Balance as at 31 December 2002	40,000,000	62,031,951	(2,312,483)	(28,194,325)	71,525,143
Loss attributable to shareholders	–	–	–	(18,845,811)	(18,845,811)
Balance as at 31 December 2003	**40,000,000**	**62,031,951**	**(2,312,483)**	**(47,040,136)**	**52,679,332**

> CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003 (Amount expressed in Renminbi ("RMB"))

	Note	2003 RMB	2002 RMB
Cash flows from operating activities			
Net cash used in operations	27(a)	(35,348,938)	(22,192,298)
Interest paid and factoring charge		(1,956,214)	(1,248,771)
Interest subsidy from the government		1,062,000	–
Interest received		589,405	543,054
Net cash used in operating activities		(35,653,747)	(22,898,015)
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,916,305)	(4,689,446)
Sales of property, plant and equipment		52,500	832
Acquisitions of subsidiaries, net of cash acquired	27(b)	–	357,439
Acquisition of additional equity interest in a subsidiary	27(c)	(100,000)	–
Net cash used in investing activities		(1,963,805)	(4,331,175)
Cash flows from financing activities	27(d)		
Issue of ordinary shares		–	103,938,800
Share issuance expenses		–	(22,952,558)
Increase in restricted deposit		–	(24,935,850)
Additions of short-term bank borrowings		20,900,000	26,500,000
Repayments of short-term bank borrowings		(11,800,000)	(22,700,000)
Capital injection by a minority shareholder of Tianjin Yisheng Bioengineering Co., Ltd. ("Yisheng")		1,500,000	–
Repayment of capital element of finance lease		(489,229)	–
Net cash from financing activities		10,110,771	59,850,392
Net (decrease)/increase in cash and bank balances		(27,506,781)	32,621,202
Cash and bank balances at 1 January		40,527,637	7,906,435
Effect of foreign exchange rate changes		(108,100)	–
Cash and bank balances at 31 December		12,912,756	40,527,637

1 Group Information and Principal Activities

Tianjin TEDA Biomedical Engineering Company Limited (the "Company") was established and registered in the People's Republic of China (the "PRC") under the Company Law of the PRC as a joint stock company with limited liability on 8 September 2000. The Company is a subsidiary of TTII, a state-owned enterprise established in the PRC. On 18 June 2002, the Company's shares were listed on the Growth Enterprise Market (the "GEM"). As described in the Report of the Directors, on 24 March 2003, the Company changed its legal status to Sino-foreign joint stock company with limited liability listed in Hong Kong. The Company and its subsidiaries are collectively referred to as the "Group".

The principal activities of the Company are investment holding, research, development, manufacturing, marketing and sales of biomedical equipment and biomaterials. The activities of the subsidiaries are set out in Note 15 below.

2 Principal Accounting Policies

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

(a) Basis of preparation

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

In the current year, the Group adopted SSAP 12 "Income taxes" issued by the HKSA which is effective for accounting period commencing on or after 1 January 2003. The change to the Group's accounting policies and the effect of adopting the new policy are set out in Note 2(k) below.

(b) Consolidation

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

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

2 Principal Accounting Policies *(Continued)*

(c) Intangibles

(i) Goodwill

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

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

(ii) Proprietary technologies

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

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

Proprietary technologies are amortised using the straight-line method over their estimated useful lives of 5 years.

(iii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period.

(iv) Impairment of intangible assets

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

2 Principal Accounting Policies *(Continued)*

(d) Property, plant and equipment

(i) Property, plant and equipment

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

(ii) Depreciation

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

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

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) Construction-in-progress

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

No depreciation is provided for construction-in-progress.

(iv) Impairment and gain or loss on sale

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

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

2 Principal Accounting Policies *(Continued)*

(e) Government grants

A government grant is recognised, when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(f) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group and the Company all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

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

(g) Inventories

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

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

(h) Trade receivables

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

2 Principal Accounting Policies *(Continued)*

(i) Translation of foreign currencies

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

(j) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension costs

The Group and the Company have various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Group and the Company pay fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The Group's and the Company's contributions to the defined contribution plans are expensed as incurred.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Principal Accounting Policies *(Continued)*

(k) Deferred taxation *(Continued)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 representing a change in accounting policy has no material financial impact on the accounts of the Group and the Company.

(l) Contingent liabilities and contingent assets

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

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

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

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

(m) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. For sales under which the sales consideration is receivable in instalments ("instalment sale receivable"), the sales price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognised as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

Service income is recognised as services are rendered.

2 Principal Accounting Policies *(Continued)*

(m) Revenue recognition *(Continued)*

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

Preferential benefits from the government are recognised on cash basis.

(n) Borrowing costs

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

(o) Segment reporting

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

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

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

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

3 Turnover, Revenue and Segment Information

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

	2003 RMB	2002 RMB
Sales of goods		
– Diabetic health products	25,720,000	24,631,221
– Other medical and health products	20,172,159	5,131,506
	45,892,159	29,762,727
Service income		
– Other medical and health products	1,412,821	668,368
Total turnover	47,304,980	30,431,095
Other revenues		
– Bank interest income	589,405	543,054
– Others		
VAT refund (Note (i))	459,159	340,735
Government financial subsidy (Note (ii))	–	300,000
Amounts in trade payables written back	134,158	–
Others	113,432	15,975
	1,296,154	1,199,764
Total revenues	48,601,134	31,630,859

Notes

(i) Pursuant to "Provisions of Tianjin Economic-Technological Development Area on the Promotion of Development of High and New Technology Enterprise" (天津經濟技術開發區關於促進高新技術產業發展的規定) (the "Provisions"), the Company and Tianjin Alpha Health Care Products Co., Ltd. ("Alpha") are entitled to certain preferential benefits based on the conditions stipulated in the Provisions. During the year, the Group was granted tax refund of RMB459,159 (2002: RMB340,735) for the VAT previously paid. The amount of refunded VAT was determined and approved by the finance bureau in Tianjin Economic-Technological Development Area ("TEDA").

(ii) In 2002, the Company was entitled to a one-off government financial subsidy of RMB300,000 after its successful listing on the GEM.

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

3 Turnover, Revenue and Segment Information *(Continued)*

(b) **Primary reporting format – business segments**

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

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

	Diabetic health products 2003 RMB	Other medical and health products 2003 RMB	Total 2003 RMB
Segment revenues	26,193,389	21,818,340	48,011,729
Segment results	(1,777,604)	(19,400,181)	(21,177,785)
Unallocated income			589,405
Unallocated costs			(3,806,402)
Operating loss			(24,394,782)
Finance costs			(894,214)
Loss before taxation			(25,288,996)
Taxation			–
Loss after taxation			(25,288,996)
Minority interests			447,217
Loss attributable to shareholders			(24,841,779)
Segment assets	22,240,081	83,735,632	105,975,713
Unallocated assets			2,023,694
Total assets			107,999,407
Segment liabilities	5,041,170	12,569,088	17,610,258
Unallocated liabilities			38,337,694
Total liabilities			55,947,952
Capital expenditure	590,465	3,452,763	4,043,228
Depreciation	1,268,727	1,537,380	2,806,107
Amortisation of goodwill	233,585	169,834	403,419
Amortisation of proprietary technologies	–	880,000	880,000
(Gain)/Loss on disposal of property, plant and equipment	(4,299)	3,994	(305)
Bad debts and provision for doubtful debts	2,943,166	1,062,588	4,005,754
Inventory obsolescence and write-off	725,340	466,516	1,191,856

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

3 Turnover, Revenue and Segment Information *(Continued)*

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

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

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

3 Turnover, Revenue and Segment Information *(Continued)*

(c) **Secondary reporting format – geographical segments**

No geographical segment information is presented because all the sales activities of the Group are conducted in the PRC.

4 Operating Loss

Operating loss is stated after crediting and charging the following:

	2003 RMB	2002 RMB
Crediting		
Exchange gain, net	94,094	2,619
Gain on disposal of property, plant and equipment, net	305	–
Charging		
Operating lease rental – land and buildings	1,857,091	1,660,284
Staff costs (including emoluments of Directors and Supervisors (Note 11(a)) and pension costs (Note 10(a)))	16,115,950	9,585,881
Loss on disposal of property, plant and equipment, net	–	39,163
Depreciation:		
Owned property, plant and equipment	2,705,078	1,796,010
Leased property, plant and equipment	101,029	–
Amortisation of proprietary technologies	880,000	366,564
Bad debts and provision for doubtful debts	4,005,754	617,750
Advertising and marketing expenses	6,087,915	5,568,846
Travelling expenses	3,594,814	3,129,859
Technical support charges	685,342	612,333
Inventory obsolescence and write-off	1,191,856	1,126,968
Legal and professional consulting service fees	1,142,084	521,110
Auditors' remuneration	1,718,623	1,217,930
Cost of inventories sold	21,839,474	13,721,039

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

5 Finance Costs

	2003 RMB	2002 RMB
Interest expense on short-term bank borrowings	1,571,131	1,248,771
Less: Interest subsidy from the government (Note)	(1,062,000)	–
	509,131	1,248,771
Trade receivable factoring charge	385,083	–
	894,214	1,248,771

Note

In accordance with <濱海新區建設發展資金項目貸款貼息管理辦法>, the Company was granted a subsidy of RMB1,062,000 to reduce its interest expense during the year.

6 Taxation

(a) Enterprise income tax ("EIT")

The Company was a joint stock company with limited liability in the PRC and is subject to 30% state income tax and 3% local income tax. During the year, the Company changed its tax status to a listed Foreign Investment Enterprise ("FIE"). In accordance with the relevant tax rules and regulations applicable to FIE in the PRC, the Company, as a production FIE located in TEDA, shall be eligible for state income tax at a reduced rate of 15%. It is also entitled to exemption from state income tax for two years commencing from the first profit-making year after offsetting prior years' losses, followed by a 50% reduction of state income tax for the next three years thereafter. In addition, the Company shall enjoy exemption from 3% local income tax during its actual operational period in TEDA.

Alpha is subject to 30% state income tax and 3% local income tax, but being a production FIE located in TEDA, it shall be eligible for state income tax at a reduced rate of 15%. It is also entitled to exemption from state income tax for two years commencing from the first profit-making year after offsetting prior years' losses, followed by a 50% reduction of state income tax for the next three years thereafter. In addition, Alpha shall enjoy exemption from 3% local income tax during its actual operational period in TEDA.

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

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

6 Taxation *(Continued)*

(a) Enterprise income tax ("EIT") *(Continued)*

TEDAX[2] and Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Beijing Xinxing"), being limited liability companies incorporated in the PRC, are subject to 30% state income tax and 3% local income tax. According to the relevant tax regulations, high and new technology enterprises operating in Beijing High and New Technology Development Provisional Zone ("BHNTDPZ") are entitled to a reduced EIT rate of 15%. TEDAX[2] and Beijing Xinxing are recognised as high and new technology enterprises and are registered in the BHNTDPZ. Accordingly, TEDAX[2] and Beijing Xinxing are subject to income tax at a reduced rate of 15%. Moreover, high and new technology enterprises registered in the BHNTDPZ shall be entitled to exemption from income tax for three years commencing from the first operation date. Accordingly, TEDAX[2] was exempted from income tax during the year.

No provision for EIT has been made as the Group has no taxable profit, except for Alpha. However, as described above, Alpha, being the second year from the first profit-making year with reference to the tax returns submitted to the PRC tax authority, was exempted from EIT for the year ended 31 December 2003.

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

	2003 RMB	2002 RMB
Loss before taxation	**(25,288,996)**	(13,969,465)
Calculated at a taxation rate of 33% (2002: 33%)	**(8,345,369)**	(4,609,923)
Expenses not deductible for taxation purposes	**1,848,092**	2,351,092
Effect of tax exemption	**(993,040)**	(347,896)
Tax rate differential	**4,249,235**	1,574,497
Tax losses not recognised	**3,241,082**	1,032,230
Taxation charge	**–**	–

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

6 Taxation *(Continued)*

(b) **Deferred taxation**

At 31 December 2003, the Group and the Company had the following respective estimated unused tax losses, which will be expired as follows:

	2003		2002	
	Group	Company	Group	Company
	RMB	RMB	RMB	RMB
Year of expiry				
2003	N/A	N/A	–	N/A
2004	252,000	N/A	252,000	N/A
2005	8,275,000	8,405,000	8,275,000	8,405,000
2006	7,621,000	7,666,000	9,523,000	7,666,000
2007	7,899,000	6,364,000	7,899,000	6,364,000
2008	22,698,000	18,544,000	N/A	N/A
Total	46,745,000	40,979,000	25,949,000	22,435,000

No deferred tax asset has been recognised (2002: Nil) as the availability of future taxable profit to utilise the temporary differences is not probable.

(c) **VAT**

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

7 Loss Attributable to Shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB18,845,811 (2002: RMB11,262,023).

8 Dividend

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

9 Loss Per Share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of RMB24,841,779 (2002: RMB13,848,847).

The basic loss per share is based on the weighted average of 400,000,000 (2002: 350,000,000) ordinary shares in issue during the year.

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

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

10 Pension Costs

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Group's local staff are to be made monthly to a government agency calculated in accordance with the local conditions and practices in the provinces in which the group companies operate. The applicable rate for the Company, Wan Tai, Yisheng and Beijing XinXing is 28%, of which 20% is borne by the respective companies and the remainder is borne by the staff. The applicable rate for Alpha is 28%, of which 22% is borne by Alpha and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement.

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

	2003 RMB	2002 RMB
Pension costs	1,628,695	1,027,503

(b) At 31 December 2003, provision for pension costs included in other payables and accruals is as follows:

	2003		2002	
	Group RMB	Company RMB	Group RMB	Company RMB
Provision for pension costs	1,681,613	623,518	667,419	410,727

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

11 Emoluments of Directors, Supervisors and Employees

(a) **Directors' and Supervisors' emoluments**

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

	2003 RMB	2002 RMB
Directors' fees	276,250	180,000
Salaries, housing and other allowances	1,614,089	1,001,623
Discretionary performance bonuses	2,900	–
Pension	81,663	58,743
	1,974,902	1,240,366

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

11 Emoluments of Directors, Supervisors and Employees *(Continued)*

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

The number of Directors and Supervisors whose emoluments fell within the following bands:

	Number of Directors and Supervisors	
	2003	2002
Nil – RMB1,000,000	17	17
Over RMB1,000,001	–	–
	17	17

Details of emoluments of individual Directors and Supervisors are set out as below:

	2003 RMB	2002 RMB
An Executive Director	244,720	151,477
Another Executive Director	164,017	97,500
Another Executive Director	634,261	355,006
Another Executive Director	368,017	157,776
Another Executive Director	– [1]	45,600
A Supervisor	28,603	30,477
Another Supervisor	148,317	141,276
Another Supervisor	N/A [2]	20,000
A Non-executive Director	30,000	30,000
Another Non-executive Director	3,750	N/A [2]
Another Non-executive Director	20,000	N/A [2]
Another Non-executive Director	110,717	81,254
Another Non-executive Director	26,250	30,000
Another Non-executive Director	26,250	20,000
An Independent Non-executive Director	30,000	30,000
Another Independent Non-executive Director	N/A [2]	10,000
Another Independent Non-executive Director	100,000	–
An Independent Supervisor	N/A [2]	20,000
Another Independent Supervisor	20,000	20,000
Another Independent Supervisor	20,000	N/A [2]
	1,974,902	1,240,366

[1] Emoluments of RMB106,250 waived by this Executive Director.

[2] Neither Directors nor Supervisors during the respective years.

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

11 Emoluments of Directors, Supervisors and Employees *(Continued)*

(b) **Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: two) individuals during the year are as follows:

	2003 RMB	2002 RMB
Salaries, housing and other allowances	1,980,728	1,345,030
Discretionary performance bonuses	–	–
	1,980,728	1,345,030

Their emoluments fell within the following bands:

	Number of individuals	
	2003	2002
Nil – RMB1,000,000	1	2
Over RMB1,000,001	1	–

(c) During the year, no emoluments were paid by the Group to the Directors, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office (2002: Nil).

Except one Executive Director as disclosed in Note 11(a), none of the Directors and Supervisors waived any emoluments during the year (2002: Nil).

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

12 Property, Plant and Equipment

Group

	[1]Building and renovations RMB	[2]Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures and equipment RMB	Construction-in–progress RMB	Total RMB
Cost:						
At 1 January 2003	4,860,067	6,684,103	3,832,682	2,440,160	13,021	17,830,033
Additions	382,272	2,810,987	351,377	425,539	73,053	4,043,228
Transfer	–	24,017	–	–	(24,017)	–
Disposals	(4,516)	(38,100)	(169,567)	–	–	(212,183)
At 31 December 2003	**5,237,823**	**9,481,007**	**4,014,492**	**2,865,699**	**62,057**	**21,661,078**
Accumulated depreciation:						
At 1 January 2003	803,412	1,292,635	775,257	569,368	–	3,440,672
Charge for the year	740,845	868,627	700,260	496,375	–	2,806,107
Disposals	(522)	(8,258)	(151,208)	–	–	(159,988)
At 31 December 2003	**1,543,735**	**2,153,004**	**1,324,309**	**1,065,743**	**–**	**6,086,791**
Net book value:						
At 31 December 2003	**3,694,088**	**7,328,003**	**2,690,183**	**1,799,956**	**62,057**	**15,574,287**
At 31 December 2002	4,056,655	5,391,468	3,057,425	1,870,792	13,021	14,389,361

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

12 Property, Plant and Equipment *(Continued)*

Company

	[1]Building and renovations RMB	[2]Plant and machinery RMB	Motor vehicles RMB	Furniture, fixtures and equipment RMB	Construction-in–progress RMB	Total RMB
Cost:						
At 1 January 2003	2,048,637	2,119,677	1,487,742	1,193,443	13,021	6,862,520
Additions	–	2,705,787	–	114,891	73,053	2,893,731
Transfer	–	24,017	–	–	(24,017)	–
At 31 December 2003	**2,048,637**	**4,849,481**	**1,487,742**	**1,308,334**	**62,057**	**9,756,251**
Accumulated depreciation:						
At 1 January 2003	346,341	282,897	257,228	300,000	–	1,186,466
Charge for the year	244,784	390,241	284,759	230,668	–	1,150,452
At 31 December 2003	**591,125**	**673,138**	**541,987**	**530,668**	**–**	**2,336,918**
Net book value:						
At 31 December 2003	**1,457,512**	**4,176,343**	**945,755**	**777,666**	**62,057**	**7,419,333**
At 31 December 2002	1,702,296	1,836,780	1,230,514	893,443	13,021	5,676,054

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

2 Net book value of plant and machinery held under finance lease of the Group and the Company amounted to RMB2,025,894 (2002: Nil).

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

13 Proprietary Technologies

	Group 2003 RMB	2002 RMB
Cost		
At 1 January	4,400,000	–
Arising from acquisition of subsidiaries (Note 27(b))	–	4,400,000
At 31 December	4,400,000	4,400,000
Accumulated amortisation		
At 1 January	366,564	–
Charge for the year	880,000	366,564
At 31 December	1,246,564	366,564
Carrying value		
At 31 December	3,153,436	4,033,436

14 Goodwill on Consolidation

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

	2003 RMB	2002 RMB
Cost		
At 1 January	5,833,104	4,436,412
Arising from acquisition of subsidiaries (Note 27(b))	–	1,396,692
Arising from acquisition of additional equity interest in a subsidiary (Note 27(c))	100,000	–
At 31 December	5,933,104	5,833,104
Accumulated amortisation		
At 1 January	864,408	601,725
Charge for the year	403,419	262,683
At 31 December	1,267,827	864,408
Carrying value		
At 31 December	4,665,277	4,968,696

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

15 Interests in Subsidiaries

	Company	
	2003 RMB	2002 RMB
Unlisted investments, at cost	16,535,172	9,435,172
Amounts due from subsidiaries	24,041,800	17,189,000
Amount due to a subsidiary	(144,135)	–
	40,432,837	26,624,172

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

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

15 Interests in Subsidiaries *(Continued)*

The following is a list of the subsidiaries at 31 December 2002 and 2003:

Name	Place and date of incorporation and kind of legal entity	Principal activities and place of operation	Registered capital	Attributable equity interest held 2003	2002
Tianjin Alpha Health Care Products Co., Ltd.	The PRC 15 August 1994, Sino-foreign joint-venture enterprise	Manufacturing and distribution of diabetic health products and related products in the PRC	RMB3,600,000	**75%**	75%
Tianjin Wan Tai Bio-Development Company Limited	The PRC 3 September 2001, limited liability company	Trading in biomedical equipment and biomaterials in the PRC	RMB5,000,000	**[1]97%**	90%
Beijing TEDAX[2] Medical Engineering Company Limited	The PRC 17 December 2001, limited liability company	Investment holding, holder of proprietary technologies, manufacturing and sales of biomedical equipment in the PRC	RMB14,000,000	**60%**	60%
Beijing Xinxing Bio-medical Engineering Research and Development Institute	The PRC 23 June 1995, limited liability company	Research, development, manufacturing and distribution of biomedical equipment in the PRC	RMB1,000,000	**[2]60%**	[2]60%
Tianjin Yisheng Bioengineering Co., Ltd.	The PRC 17 February 2003, limited liability company	Manufacturing and distribution of other medical and health products in the PRC	RMB3,500,000	**70%**	N/A

[1] 7% equity interest held indirectly by the Company

[2] Held indirectly by the Company

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

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

16 Inventories

	2003		2002	
	Group	Company	Group	Company
	RMB	RMB	RMB	RMB
Raw materials	3,657,303	967,416	2,930,456	741,254
Work-in-progress	3,303,026	430,231	933,044	435,564
Finished goods	7,301,589	1,142,468	2,589,278	154,792
Packaging materials	1,678,157	25,377	1,821,527	6,447
Total at cost	15,940,075	2,565,492	8,274,305	1,338,057
Less: Provision for inventory obsolescence	(547,608)	(81,092)	(81,092)	(81,092)
	15,392,467	2,484,400	8,193,213	1,256,965

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

17 Trade Receivables

	2003		2002	
	Group RMB	Company RMB	Group RMB	Company RMB
Trade receivables	19,641,822	1,786,197	12,091,575	2,064,582
Less: Receivable after one year, classified under non-current assets (Note (b))	(6,823,831)	–	–	–
Trade receivables, current assets	12,817,991	1,786,197	12,091,575	2,064,582
Less: Provision for doubtful debts	(3,594,973)	(1,734,715)	(2,597,298)	(1,608,140)
	9,223,018	51,482	9,494,277	456,442

Notes

(a) Except for TEDAX[2] and Beijing Xinxing of which credit terms are subject to individual agreements, the other group companies and the Company generally grant credit terms of 90 days to their customers. But for certain major customers, their credit terms may be extended to 120 days. TEDAX[2] and Beijing Xinxing usually grant credit terms ranging from 90 days to 1 year based on individual contract terms.

An ageing analysis of the trade receivables as at the balance sheet date is as follows:

	2003		2002	
	Group RMB	Company RMB	Group RMB	Company RMB
Within 1 month	3,385,011	2,322	2,995,338	392,735
Between 1 to 2 months	1,172,027	–	2,131,375	111,422
Between 2 to 3 months	1,155,492	5,608	1,565,784	6,000
Between 3 to 6 months	9,762,713	57,504	2,765,678	30,564
Over 6 months	4,166,579	1,720,763	2,633,400	1,523,861
	19,641,822	1,786,197	12,091,575	2,064,582

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

17 Trade Receivables *(Continued)*

Notes *(Continued)*

(b) Trade receivable, non-current

	Group 2003 RMB	2002 RMB
Instalment sale receivable	6,945,894	–
Less: Current portion	(122,063)	–
	6,823,831	–

The instalment sale receivable was related to a sale of a set of equipment to a hospital in September 2003. The repayment schedule of the instalment sale receivable is as follows:

	Group 2003 RMB	2002 RMB
Within one year	500,000	–
In the second year to fifth year	6,100,000	–
After the fifth year	2,000,000	–
	8,600,000	–
Future finance income on instalment sale receivable, including its respective output VAT portion of RMB240,340	(1,654,106)	–
Present value of instalment sale receivable	6,945,894	–

The present value of the instalment sale receivable is analysed as follows:

	Group 2003 RMB	2002 RMB
Within one year	122,063	–
In the second year to fifth year	4,927,039	–
After the fifth year	1,896,792	–
	6,945,894	–

18 Prepayments and Other Receivables

Included in prepayments and other receivables are the following transactions:

(a) In December 2002, the Company entered into an agreement with BCT Global Development Limited ("BCT"), an independent unrelated third party, to market Alpha's diabetic health products in Southeast Asia. An amount of Hong Kong Dollars ("HK$") 3,000,000 was paid by the Company to an independent unrelated third party, Perennial Assets Limited ("PAL"), a related party of BCT. Any expenditure incurred by BCT for the Company's marketing activities would be reimbursed by PAL accordingly on behalf of the Company. BCT and PAL are collectively referred to as BCT Group.

During 2003, the related marketing plan was terminated. At 31 December 2003, the amount of HK$2,600,000 had not yet been collected from BCT Group. The Directors are of the opinion that HK$600,000 will be collected in 2004. On that basis, HK$600,000 is grouped under current assets, whilst the balance of HK$2,000,000 is classified under non-current assets.

(b) In December 2002, living allowances of RMB300,000 were paid to Ms. Zheng Dan, a Director of the Company, for a three-year period ending 2005 following her relocation from Tianjin to Beijing. At 31 December 2003, the unamortised balance of the living allowances was RMB200,000.

19 Balances with Related Parties

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

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

20 Due from/to Directors and Supervisors

Details of the amounts due from Directors of the Group and the Company as at 31 December 2003 are set out below:

	2003		2002	
	Amount outstanding at 31 December RMB	Maximum amount outstanding during the year ended 31 December RMB	Amount outstanding at 31 December RMB	Maximum amount outstanding during the year ended 31 December RMB
Mr. Wang Shuxin (Executive Director)	23,662	41,982	20,754	21,222
Professor Gu Hanqing (Executive Director)	7,000	7,000	–	–
Mr. Xie Kehua (Executive Director)	5,000	14,000	–	–
Ms. Zheng Dan (Executive Director)	2,414	2,771	–	–
	38,076		20,754	

Details of the amounts due to Directors and Supervisors of the Group and the Company as at 31 December 2003 are set out below:

	2003 RMB	2002 RMB
Mr. He Ning (Executive Director)	–	3,505
Mr. Feng Enqing (Non-executive Director)	–	28,500
Mr. Chang Zheng (Independent Supervisor (2002: Supervisor))	20,000	19,500
Professor Xiao Zhuoji (Independent Non-executive Director)	50,000	–
Professor Xian Guoming (Independent Non-executive Director)	30,000	–
Professor Sun Zhiyuan (Non-executive Director)	26,250	–
Mr. Xie Guangbei (Non-executive Director (2002: Independent Supervisor))	20,000	–
Mr. Zhu Gang (Independent Supervisor)	20,000	–
	166,250	51,505

The amounts due from Directors mainly represent travelling advances. The amounts due to Directors and Supervisors mainly represent emoluments payable to them. The balances with them are unsecured, non-interest bearing and have no fixed repayment terms.

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

21 Restricted Deposit

The restricted deposit was a fixed bank deposit of HK$23,500,000 pledged to secure a short-term bank borrowing of RMB5,000,000 (2002: RMB20,000,000) described in Note 23 below and for the letter of credit facilities granted by a licensed bank in the PRC.

22 Trade Payables

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

	2003		2002	
	Group RMB	Company RMB	Group RMB	Company RMB
Within 1 month	713,198	86,706	1,007,572	398,972
Between 1 to 2 months	286,878	18,632	175,406	4,529
Between 2 to 3 months	175,387	–	40,058	–
Between 3 to 6 months	835,570	–	176,844	2,450
Over 6 months	189,838	103,689	230,379	63,075
	2,200,871	209,027	1,630,259	469,026

23 Short-term Bank Borrowings

At 31 December 2003, the short-term bank borrowings of the Group and the Company were secured by a fixed deposit described in Note 21 above to the extent of RMB5,000,000 (2002: RMB20,000,000) and the remaining borrowings of RMB27,000,000 were guaranteed by an independent party.

Other than that as disclosed above, the short-term bank borrowings of the Group of RMB4,700,000 (2002: RMB7,600,000) were secured by corporate guarantees provided by the Company.

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

24 Finance Lease Payable

At 31 December 2003, the Group's and the Company's finance lease liability was repayable as follows:

	Group and Company	
	2003 RMB	2002 RMB
Within one year	168,815	–
In the second year	178,001	–
In the third year to fifth year	594,251	–
After the fifth year	696,627	–
Obligation under finance lease not wholly repayable within five years	1,637,694	–
Less: Current portion of finance lease payable	(168,815)	–
Non-current portion of finance lease payable	1,468,879	–

Obligation under finance lease not wholly repayable within five years are repayable by instalments from July 2003 to July 2011.

The reconciliation between the total minimum lease payments and the present value of finance lease obligation is as follows:

	Group and Company	
	2003 RMB	2002 RMB
Total minimum lease payments		
Within one year	244,615	–
In the second year	244,615	–
In the third year to fifth year	733,845	–
After the fifth year	733,844	–
	1,956,919	–
Less: Interest portion of finance lease	(319,225)	–
Present value of finance lease obligation	1,637,694	–

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

25 Other Long-term Liabilities

Other long-term liabilities of the Group and the Company are unsecured and non-interest bearing.

The repayment schedules of the Group as at 31 December 2003 are analysed as below:

	TTII RMB (Notes (a) and (b))	Tianjin Institute of Urological Surgery RMB (Note (c))	Total RMB
Total payables	544,286	600,000	1,144,286
Less: Payables within one year	(544,286)	(600,000)	(1,144,286)
Non-current portion	–	–	–

The repayment schedules of the Company as at 31 December 2003 are analysed as below:

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

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

25 Other Long-term Liabilities *(Continued)*

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

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

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

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

Notes

(a) In 2002, TTII advanced RMB2,000,000 to Beijing Xinxing as working capital for daily operation, of which RMB1,800,000 has been repaid. The balance of RMB200,000 will be repaid in 2004.

(b) The amounts payable to TTII (excluding the balance described in Note (a) above) as at 31 December 2003 represent the liabilities incurred in connection with the acquisition of two proprietary technologies from TTII pursuant to the group reorganisation on 8 September 2000 (the "Reorganisation"). The liability of RMB344,286 was still unsettled as at 31 December 2003; however, TTII agreed and confirmed that no penalty was charged to the Group and the Company for non-repayment during the year.

(c) As described in the prospectus of the Company dated 10 June 2002, the liability payable to Tianjin Institute of Urological Surgery, a research institute in Tianjin, was related to one proprietary technology purchased by TTII from this institute and, pursuant to the Reorganisation, transferred to the Group and the Company.

The liability of RMB600,000 was still unsettled as at 31 December 2003; however, Tianjin Institute of Urological Surgery agreed and confirmed that no penalty was charged to the Group and the Company for non-repayment during the year.

26 Share Capital

(a) Details of the share capital as at 31 December 2003 are set out below:

	Registered				
	Domestic shares of RMB0.1 each (Note (i))		H Shares of RMB0.1 each (Note (ii))		Total
	No. of shares	RMB	No. of shares	RMB	RMB
At 1 January 2002	300,000,000	30,000,000	–	–	30,000,000
Increase in registered overseas listed foreign invested shares ("H Shares") on 25 May 2002	–	–	100,000,000	10,000,000	10,000,000
At 31 December 2002 and 2003	300,000,000	30,000,000	100,000,000	10,000,000	40,000,000

	Issued and fully paid				
	Domestic shares of RMB0.1 each (Note (i))		H Shares of RMB0.1 each (Note (ii))		Total
	No. of shares	RMB	No. of shares	RMB	RMB
At 1 January 2002	300,000,000	30,000,000	–	–	30,000,000
Issue of H Shares on 18 June 2002	–	–	100,000,000	10,000,000	10,000,000
At 31 December 2002 and 2003	300,000,000	30,000,000	100,000,000	10,000,000	40,000,000

Notes

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

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

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

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

As described in Note 33 below, a placement of H Shares may take place in 2004. Details of the H Share placement and its anticipated consequential change to the structure of the Company's share capital have been set out under the paragraph headed "Placing Arrangement" in the Report of the Directors.

26 Share Capital *(Continued)*

(b) Share option scheme

No share options had been granted by the Company under its share option scheme (the "Scheme") since its adoption (2002: Nil). At 31 December 2003, none of the Directors or Supervisors or employees or other participants of the Scheme had any rights to acquire the H Shares in the Company (2002: Nil). Details of the Scheme have been set out under the paragraph headed "Share Option Scheme" in the Report of the Directors.

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

27 Consolidated Cash Flow Statement

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

	2003 RMB	2002 RMB
Cash flows from operating activities:		
Loss before taxation	(25,288,996)	(13,969,465)
Provision for doubtful debts	997,675	618,589
Provision for/(Write back) inventory obsolescence	466,516	(27,098)
Depreciation	2,806,107	1,796,010
(Gain)/Loss on disposal of property, plant and equipment	(305)	39,163
Interest expense and factoring charge, net	894,214	1,248,771
Interest income	(589,405)	(543,054)
Amortisation of proprietary technologies	880,000	366,564
Amortisation of goodwill on consolidation	403,419	262,683
Operating loss before working capital changes	(19,430,775)	(10,207,837)
Increase in inventories	(7,665,770)	(3,185,263)
Increase in trade receivables	(7,550,247)	(3,206,173)
Increase in prepayments and other receivables	(1,287,533)	(3,904,895)
Increase in VAT recoverable	(1,229,661)	(233,323)
Increase in due from TTII	(627,928)	(267,501)
Increase in due from Directors	(17,322)	(8,357)
Increase in due from minority shareholders of subsidiaries	(1,539,778)	(301,370)
Increase/(Decrease) in trade payables	570,612	(393,980)
Increase in other payables and accruals	4,915,387	146,985
(Decrease)/Increase in government grants received in advance	(450,000)	1,096,144
Increase/(Decrease) in VAT payable	290,632	(4,779)
Decrease in due to TTII	(1,100,000)	–
Increase in due to Directors and Supervisors	114,745	6,705
Increase in due to the sole investor of TTII	352,944	147,060
Increase in due to a minority shareholder of a subsidiary	5,756	–
Decrease in other long-term liabilities	(700,000)	(1,875,714)
Net cash used in operations	(35,348,938)	(22,192,298)

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

27 Consolidated Cash Flow Statement *(Continued)*

(b) Acquisitions of subsidiaries

In August 2002, the Group acquired 60% equity interest in TEDAX[2] and its wholly owned subsidiary, Beijing Xinxing.

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

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

27 Consolidated Cash Flow Statement *(Continued)*

(b) Acquisitions of subsidiaries *(Continued)*

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

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

(c) Acquisition of additional equity interest in a subsidiary

	2003 RMB
Share of net liabilities assumed (Note)	–
Goodwill (Note 14)	100,000
Net cash outflow	100,000
Satisfied by	
Cash	100,000

Note

The subsidiary was a loss-making company when the Group acquired additional 7% equity interest in it. The pre-acquisition losses in excess of share capital contributed by the minority shareholder had been fully accounted for by the Group previously. This results in nil value to the share of net liabilities assumed by the Group.

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

27 Consolidated Cash Flow Statement *(Continued)*

(d) Analysis of changes in financing during the year

	2003								2002
	Share capital RMB	Capital reserve RMB	Share premium RMB	Restricted deposit RMB	Minority interests RMB	Short-term bank borrowings RMB	Obligations under finance lease RMB	Total RMB	Total RMB
At 1 January	40,000,000	2,541,404	62,031,951	(24,935,850)	4,909,397	27,600,000	–	112,146,902	45,218,845
Cash inflows/ (outflows)	–	–	–	–	–	9,100,000	–	9,100,000	(44,088,408)
Issue of shares	–	–	–	–	–	–	–	–	103,938,800
Acquisitions of subsidiaries (Note 27(b))	–	–	–	–	–	–	–	–	2,800,000
Adjustment to value of assets contributed by minority shareholders (Note 27(b))	–	–	–	–	–	–	–	–	(540,000)
Capital injection by minority shareholders	–	–	–	–	1,500,000	–	–	1,500,000	4,938,283
Minority interests' share of loss	–	–	–	–	(447,217)	–	–	(447,217)	(120,618)
Inception of finance lease (Note 27(e))	–	–	–	–	–	–	2,126,923	2,126,923	–
Repayment of finance lease	–	–	–	–	–	–	(489,229)	(489,229)	–
Translation difference	–	–	–	(108,100)	–	–	–	(108,100)	–
At 31 December	40,000,000	2,541,404	62,031,951	(25,043,950)	5,962,180	36,700,000	1,637,694	123,829,279	112,146,902

(e) Major non-cash transaction

During the year, the Group and the Company entered into a finance lease arrangement in respect of a machinery purchase with a total capital value at the inception of the lease of RMB2,126,923.

28 Distribution of Profits

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

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

28 Distribution of Profits *(Continued)*

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

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

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

29 Commitments

(a) Capital commitments

At 31 December 2003, the Group and the Company had the following significant capital commitments:

	2003		2002	
	Group	Company	Group	Company
	RMB	RMB	RMB	RMB
Authorised and contracted for				
– Acquisition of plant and machinery	174,197	174,197	–	–
– Establishment of Yisheng	–	–	3,500,000	3,500,000
	174,197	174,197	3,500,000	3,500,000

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

29 Commitments *(Continued)*

(b) Operating lease commitments

At 31 December 2003, the Group and the Company had the following operating lease commitments:

(i) The Group and the Company had various non-cancellable operating lease agreements with independent third parties in respect of the rental of office premises amounting to approximately RMB963,000 (2002: RMB1,399,000) and RMB522,000 (2002: RMB489,000) respectively.

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

	2003		2002	
	Group	Company	Group	Company
	RMB	RMB	RMB	RMB
Not later than one year	653,000	368,000	1,320,000	489,000
Later than one year and not later than five years	310,000	154,000	79,000	–
	963,000	522,000	1,399,000	489,000

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

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

	Group and Company	
	2003	2002
	RMB	RMB
Not later than one year	–	–
Later than one year and not later than five years	1,625,000	1,625,000
More than five years	1,580,000	1,580,000
	3,205,000	3,205,000

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

29 Commitments *(Continued)*

(b) Operating lease commitments *(Continued)*

(ii) *(Continued)*

Pursuant to the supplementary agreements, the rent-free period was extended from 31 December 2001 to 31 December 2004 and the monthly rental will be determined based on prevailing market price at the commencement of rent-pay period. The current year's operating lease rental expense and the above analysis of future minimum lease payments as at 31 December 2002 and 2003 are calculated with reference to the current market rent of the area where the production premises is located.

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

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

	Group	
	2003 RMB	2002 RMB
Not later than one year	200,000	–
Later than one year and not later than five years	1,600,000	1,400,000
More than five years	767,000	1,167,000
	2,567,000	2,567,000

Pursuant to the supplementary agreements, the rent-free period was extended from 30 June 2001 to 30 June 2004 and the monthly rental will be determined based on prevailing market price at the commencement of rent-pay period. The current year's operating lease rental expense and the above analysis of future minimum lease payments as at 31 December 2002 and 2003 are calculated with reference to the current market rent of the area where the production premises is located.

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

29 Commitments *(Continued)*

(b) Operating lease commitments *(Continued)*

(iv) The Group and the Company had a non-cancellable operating lease agreement with the sole investor of TTII in respect of the rental of office premises amounting to approximately RMB559,000 (2002: RMB912,000).

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

	Group and Company	
	2003 RMB	2002 RMB
Not later than one year	**353,000**	353,000
Later than one year and not later than five years	**206,000**	559,000
	559,000	912,000

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

(c) Other commitments

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

The total commitments in respect of this technical support service agreement are approximately RMB667,000 (2002: RMB1,667,000).

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

29 Commitments *(Continued)*

(c) Other commitments *(Continued)*

Total technical service fee payable:

	Group	
	2003 RMB	2002 RMB
Not later than one year	667,000	1,000,000
Later than one year and not later than five years	–	667,000
	667,000	1,667,000

30 Contingent Liabilities

During the year, the Group and the Company provided a corporate guarantee to a financial institution for a discounted debt of RMB3,743,700 due by a trade debtor to a subsidiary (2002: Nil).

31 Material Related Party Transactions

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

Save as disclosed elsewhere in the accounts, during the year the Group and the Company had the following material transactions with related parties. In the opinion of the Directors, they were conducted under the ordinary course of business.

	2003 RMB	2002 RMB
Property management fee charged by TTII (Note (a))	177,456	182,497
Operating lease rental charged by the sole investor of TTII (Note (b))	391,874	147,060
Operating lease rental charged by TTII (Note (c))	574,124	766,157
Purchase of inventory from a supplier who is a minority shareholder of a subsidiary	2,985,647	–

31 Material Related Party Transactions *(Continued)*

Notes

(a) The property management fee charged by TTII is determined in accordance with the agreement terms in the lease agreement entered into between TTII and the Company. The property management fee includes a fixed monthly management fee and utility charges, which are calculated with reference to the actual consumption of the utilities by the Company.

(b) The operating lease rental charged by the sole investor of TTII is determined in accordance with the related operating lease agreements entered into by the Group and the Company. The Company's operating lease agreement is described in Note 29 (b)(iv).

(c) The total operating lease rental charged by TTII is determined in accordance with the operating lease agreements described in Notes 29(b)(ii) and (iii).

32 Banking Facilities and Pledge of Assets

The Group had aggregate short-term bank borrowing facilities of RMB59,700,000 (2002: RMB27,600,000) which were utilised to the extent of RMB36,700,000 (2002: RMB27,600,000) as at 31 December 2003. The facility of RMB5,000,000 (2002: RMB20,000,000) was secured by a fixed deposit described in Note 21 above and was restricted to be used for daily operation; the facilities of RMB27,000,000 were guaranteed by an independent party; and the facilities of RMB4,700,000 (2002: RMB7,600,000) were secured by corporate guarantees provided by the Company.

33 Subsequent Events

Pursuant to the resolutions passed in the extraordinary shareholders' meetings held on 2 February 2004, a plan of H Share placement to raise gross proceeds of not less than HK$40,000,000 was approved. Details of the H Share placement have been disclosed in the circular dated 19 December 2003 issued by the Company to all shareholders. In addition, details of the progress of this share placement up to the date of the accounts and its anticipated consequential change to the structure of the Company's share capital have been set out under the paragraph headed "Placing Arrangement" in the Report of the Directors.

34 Ultimate Holding Company

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

35 Approval of Accounts

The accounts were approved by the Board of Directors on 18 March 2004.

NOTICE IS HEREBY GIVEN THAT the 2003 annual general meeting ("AGM") of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") will be held at 9th Floor, Block A2, Tianda Science and Technology Park, The 4th Avenue, TEDA, Tianjin, the People's Republic of China (the "PRC") at 9:00 a.m. on Tuesday, 18th May, 2004 for the following purposes:

I. As ordinary resolutions:

1. To consider and, if thought fit, approve the Directors' Report of the Company for 2003;

2. To consider and, if thought fit, approve the Report of the Supervisory Committee of the Company for 2003;

3. To consider and, if thought fit, approve the audited consolidated accounts of the Company for the year ended 31st December, 2003;

4. To consider and, if thought fit, approve that no final dividend is declared for 2003;

5. To consider and, if thought fit, approve the proposal of appointing Messrs. PricewaterhouseCoopers as auditors of the Company for 2004 and authorize the Directors of the Company to fix their remuneration;

6. To consider and, if thought fit, approve the remuneration proposals for Directors and Supervisors of the Company for 2004; and

7. To transact any other business.

II. As special resolutions:

1. To consider and, if thought fit, pass the following resolution:

"THAT:

(a) subject to paragraphs (c), (d) and (e) below, the exercise by the Board of Directors of the Company (the "Board") during the Relevant Period (as defined in paragraph (f) below) of all the powers of the Company separately or concurrently to allot, issue and deal with Domestic Shares and/or H Shares of the Company be and is hereby approved;

(b) the approval in paragraph (a) above shall authorize the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares of the Company to be allotted and issued either during or after the end of the Relevant Period;

(c) the aggregate nominal value of Domestic Shares of the Company to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversation rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the Domestic Shares of the Company then in issue at the date of the passing of this resolution;

(d) the aggregate nominal value of H Shares of the Company to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above, otherwise than pursuant to (i) a rights issue (as defined in paragraph (f) below); (ii) the exercise of the conversation rights under the terms of any securities which are convertible into such shares; (iii) the exercise of rights of subscription under the terms of any warrants issued by the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal value of the H Shares of the Company then in issue at the date of the passing of this resolution;

(e) the approval in paragraph (a) above shall be conditional upon the approval of the China Securities Regulatory Commission being obtained by the Company;

(f) for the purpose of this special resolution:

"**Relevant Period**" means the period from the passing of this special resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;

(ii) the expiration of a period of twelve months following the passing of this special resolution; or

(iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.

"**rights issue**" means an offer of shares open for a period fixed by the directors of the Company to holders of shares of the Company on the register of members of the Company on a fixed record date and, where appropriate, the holders of the other equity securities of the Company entitled to be offered therein, in proportion to their then holdings of such shares or other equity securities (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any regulatory body or any stock exchange); and

(g) the Board be and is hereby authorized to make such amendments to the articles of association of the Company as it thinks fit so as to increase the issued share capital and to reflect the new capital structure of the Company as a result of the allotment and issuance of shares of the Company pursuant to the approval granted under paragraph (a) above."

2. To consider and, if thought fit, pass the following resolution to amend the existing Articles of Association of the Company (the "existing Articles of Association") in the following manner:

"**THAT**:

(i) *Article 74 of the existing Articles of Association*

The reference in Article 74 of the existing Articles of Association to the "recognized clearing house" under the "Securities and Futures (Clearing House) Ordinance (Chapter 420 of the laws of Hong Kong)" shall be deleted in entirety and be replaced by the reference to the "clearing house" under the "Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)".

(ii) *Article 75 of the existing Articles of Association*

The following paragraph shall be added at the end of Article 75 of the existing Articles of Association:

"Any shareholder is, under this Articles of Association or the GEM Listing Rules of Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

(iii) *Article 99 of the existing Articles of Association*

The second paragraph of Article 99 of the existing Articles of Association shall be deleted in entirety and be replaced by the following paragraph:

"The minimum length of the period during which notice to the Company of the intention to propose a person for election as a director and during which notice to the Company by such person of his willingness to be elected may be given, will be at least 7 days and the period for lodgment of such notices will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting."

(iv) *Article 134 of the existing Articles of Association*

The following paragraph shall be added immediately after the first paragraph of Article 134 of the existing Articles of Association:

"The director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (by reference to the definition of "associate" in Article 131 of this Articles of Association) has a material interest nor shall he be counted in the quorum present at the meeting. Subject to the compliance of the relevant provisions in the Company Law and the GEM Listing Rules of the Stock Exchange, the aforesaid restriction shall not apply in respect of the following matters:

(1) the giving of any security or indemnity either:

(i) to the director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

(ii) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(2) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(3) any proposal concerning any other company in which the director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the director or his associate(s) is/are beneficially interested in share of that company, provided that the director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

(4) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:

(i) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the director or his associate(s) may benefit; or

(ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to director, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any director or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(5) any contract or arrangement in which the director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company."

(v) Article 147 of the existing Articles of Association

The second paragraph of Article 147 of the existing Articles of Association shall be deleted in entirety and be replaced by the following paragraph:

"A copy of the aforesaid report or a copy of the summary of such report shall, at least 21 days before the date of the general meeting, be delivered or sent by post to the registered address of every shareholder of H Shares."

(vi) *Article 150 of the existing Articles of Association*

The following paragraph shall be added at the end of Article 150 of the existing Articles of Association:

"The Company may send (i) a copy of its summary financial report to a shareholder and a holder of its listed securities in place of a copy of its annual report and account and (ii) a copy of its summary of half-year report to a shareholder and a holder of its listed securities in place of a copy of its half-year report, provided that in both cases, the Company shall comply with the relevant provisions set out in the Company Law, the Companies Ordinance (Chapter 32 of the laws of Hong Kong) and the GEM Listing Rules of the Stock Exchange.""

By order of the Board
Wang Shuxin
Chairman

Tianjin, the PRC
24th March, 2004

Notes:

1. Any shareholders of the Company entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his, her or its behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, the proxy form of holder of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (the "Company's Share Registrar") not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

3. In order to be valid, the proxy form of the holder of the Domestic Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the registered address of the Company not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

4. Shareholders of the Company or their proxies shall produce documents of their proof of identity when attending the meeting.

5. The register of shareholders of the Company will be closed from 19th April, 2004 to 18th May, 2004 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar not later than 16th April, 2004 at 4:00 p.m. for registration.

6. Shareholders of the Company who intend to attend the meeting mentioned above should notify in writing of their attendance by sending such notice of the Company by hand, post or fax not later than 27th April, 2004.

7. The registered address of the Company and the contact details of the Company are as follows:

   No. 12 Tai Hua Road, The 5th Avenue, TEDA, Tianjin, the People's Republic of China.

   Fax No.: (8622) 6621 1219