



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



First Quarterly Report 2004

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

HIGHLIGHTS

- Turnover increased by approximately 10% over the corresponding period last year to approximately RMB12,565,000 for the three months ended 31 March 2004.
- The increase in sales turnover is mainly attributable to the increase by approximately 33% in sales of Alpha products, when it compared with the sales turnover in the corresponding period of last year.
- Gross profit margin was lowered from 50.6% to 43.7% and therefore gross profit was slightly less than that achieved in the corresponding period of last year.
- Gross profit decreased by approximately 5% to approximately RMB5,493,000.
- Loss attributable to shareholders was approximately RMB4,918,000, representing a 64.6% increase from that recorded in the corresponding period of last year.

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited quarterly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the three months ended 31 March 2004, together with the comparative figures of the corresponding period in 2003 as follows:

| | | For the three months ended 31 March | |
|---|--------------|--|----------------------|
| | | 2004 | 2003 |
| | | <i>RMB</i> | <i>RMB</i> |
| | <i>Notes</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Turnover | 2 | 12,565,081 | 11,468,266 |
| <i>Less: sales tax</i> | | (19,765) | (37,893) |
| Cost of sales | | <u>(7,052,564)</u> | <u>(5,628,694)</u> |
| Gross profit | | 5,492,752 | 5,801,679 |
| Selling and distribution expenses | | (5,036,080) | (2,992,960) |
| R&D and administrative expenses | | <u>(5,076,830)</u> | <u>(5,686,965)</u> |
| Operating loss | | (4,620,158) | (2,878,246) |
| Other income less other expenses | | 251,851 | 162,578 |
| Amortization on goodwill | | (75,855) | (75,855) |
| Finance expense | | <u>(671,357)</u> | <u>(381,597)</u> |
| Loss before tax | | (5,115,519) | (3,173,120) |
| Taxation | 3 | <u>(9,257)</u> | <u>–</u> |
| Loss after tax | | (5,124,776) | (3,173,120) |
| Minority interests | | <u>206,445</u> | <u>185,623</u> |
| Net loss attributable to the shareholders | | <u>(4,918,331)</u> | <u>(2,987,497)</u> |
| Loss per share | 4 | <u>(1.230) cents</u> | <u>(0.747) cents</u> |

Notes:

1. Basis of presentation

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

The accounting policies adopted are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

2. Turnover

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

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

| | For the three months ended 31 March | |
|---------------------------------|--|-------------------|
| | 2004 | 2003 |
| | <i>RMB</i> | <i>RMB</i> |
| Turnover: | | |
| Diabetic health products | 8,845,852 | 6,652,324 |
| Other medical & health products | 3,719,229 | 4,815,942 |
| | <u>12,565,081</u> | <u>11,468,266</u> |

3. Taxation

- (a) The Company, being a joint stock company with limited liability in the People's Republic of China (the "PRC"), is subject to 30% state income tax and 3% local income tax. During 2003, 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%.

For the period ended 31 March 2004, there was no assessable profit to Enterprise income tax ("EIT") generated by the Group except in respect of the profit generated by Tianjin Alpha Health Care Products Co., Ltd. ("Alpha"). Alpha, being a Sino-foreign joint-venture enterprise located in Tianjin Economic Technological Development Area ("TEDA"), is eligible for state EIT at a rate of 15%. It is also entitled to exemption from state EIT for two years commencing from the first profit-making year after offsetting prior years' losses, followed by a 50% reduction of state EIT for the next three years thereafter. In addition, Alpha is also entitled to exemption from 3% local EIT during its actual operational period in TEDA. The state EIT exemption period of Alpha ended on 31 December 2003 and the state EIT 50% reduction period of Alpha started on 1 January 2004.

Beijing TEDAX² Medical Engineering Company Limited (“TEDAX²”) and Beijing Xinxing Bio-medical Engineering Research and Development Institute (“Beijing Xinxing”), being limited companies incorporated in the PRC, are subject to 30% state EIT and 3% local EIT. However, according to the relevant tax regulations, new and high technology enterprises operating in Beijing New and High Technology Development Provisional Zone (“BNHTDPZ”) are entitled to a reduced EIT rate of 15%. TEDAX² and Beijing Xinxing are recognized as new and high technology enterprises and are registered in the BNHTDPZ. Accordingly, TEDAX² and Beijing Xinxing are subject to state EIT at a reduced rate of 15%. Moreover, new and high technology enterprises registered in the BNHTDPZ shall be entitled to exemption from EIT for three years commencing from the first operation date. Accordingly, TEDAX² was exempted from state EIT during the period.

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

(b) Income Tax expense

| | For the three months ended 31 March | |
|---------------------|--|----------------|
| | 2004 | 2003 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Current Tax | | |
| Hong Kong | Nil | Nil |
| Other Jurisdictions | 9 | Nil |

Hong Kong profits tax is calculated at 17.5 percent (2003: 17.5 percent) of the assessable profits for the period. The income tax charge in Hong Kong is Nil for the period ended 31 March 2004 (March 2003: Nil) as the Company did not carry on any business in Hong Kong during the period.

Taxation in the PRC jurisdiction is calculated at 33 percent. The income tax charge in the PRC is RMB9,257 for the period ended 31 March 2004 (March 2003: Nil).

The charge for the period can be reconciled to the profit per the income statement as follows:

| | For the three months ended 31 March | |
|---|--|---------------------------------|
| | 2004 <i>RMB('000)</i> | 2003 <i>RMB('000)</i> |
| Profit/(loss) before tax | (5,040) | (3,173) |
| Tax calculated at the income tax rate of 33% | (1,663) | (1,047) |
| Tax rate differential | 682 | – |
| Effect of tax holiday exemption | – | (119) |
| Effect of the tax losses on consolidation | 782 | 1,166 |
| Tax effect of expenses that are not deductible in determining taxable profit | 208 | – |
| Tax expense for the period | <u>9</u> | <u>–</u> |

4. Loss per share

For the three months ended 31 March 2004, the calculation of basic loss per share is based on the unaudited loss attributable to shareholders of the Group of RMB4,918,331 (2003: RMB2,987,497), divided by the total number of shares issued by the Company of 400,000,000 (2003: 400,000,000 shares). Diluted loss per share is not presented as there are no dilutive potential shares during the period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2004 (2003: NIL).

MOVEMENT OF RESERVES

| | For the three months ended 31 March | | | | | | | |
|------------------|-------------------------------------|-------------------|------------------|------------------|---------------------|---------------------|------------------|-------------------|
| | Share premium | | Capital reserve | | Accumulated losses | | Total | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | RMB | RMB | RMB | RMB | RMB | RMB | RMB | RMB |
| Balances as of | | | | | | | | |
| 1 January | 62,031,951 | 62,031,951 | 2,541,404 | 2,541,404 | (58,484,080) | (33,642,301) | 6,089,275 | 30,931,054 |
| Net loss for the | | | | | | | | |
| three months | | | | | | | | |
| ended 31 March | - | - | - | - | (4,918,331) | (2,987,497) | (4,918,331) | (2,987,497) |
| Balances as of | | | | | | | | |
| 31 March | <u>62,031,951</u> | <u>62,031,951</u> | <u>2,541,404</u> | <u>2,541,404</u> | <u>(63,402,411)</u> | <u>(36,629,798)</u> | <u>1,170,944</u> | <u>27,943,557</u> |

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

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

For the three months ended 31 March 2004, sales turnover of the Group increased by approximately 10% over that recorded in the corresponding period in 2003, to approximately RMB12,565,000. Gross profit margin was decreased from 50.6% to 43.7% and the gross profit was reduced to approximately RMB5,493,000, representing approximately 5% decrease from that achieved in the corresponding period in 2003. Net loss attributable to shareholders of the Company, however, increased by 64.6% from approximately RMB2,987,000 to RMB4,918,000 due to the increase in the selling and distribution expenses during the period under review. The selling and distribution expenses of the Group were increased mainly due to the increase in advertising expenses for the promotion of diabetic health products under the “Alpha” brand name. For the first quarter of 2004, approximately 70% of the total turnover were derived from the sales of diabetic health products which were sold under the brand name of “Alpha”.

Medical Equipment and Biomaterials

The Group continued to launch medical equipment under the “TEDA” brand name through its subsidiary, Beijing TEDAX² Medical Engineering Company Limited (“TEDAX²”), which is principally engaged in the manufacture and sale of monitoring equipment including sleeping status monitoring equipment. During the first quarter of 2004, TEDAX² contributed approximately RMB1,550,000 to the Group’s sales turnover. Furthermore, the Group plans to diversify its medical monitoring products this year by introducing new models of monitors such as sleeping monitors for the general consumer market. Since the new models will be incorporated with new integrated circuit technology and have simpler functions, the Directors expect that the production cost of such new models can be lowered.

Immediately after obtaining the trial production certificate for the Group’s intraocular lens in the second quarter of 2004 (originally estimated to be obtained in April 2004), the Group will be able to sell such products for the use of surgery operation for cataract patients. The Directors believe that the quality of the Group’s intraocular lens will be the best with affordable prices in the existing competitive market in the PRC.

“Alpha” Health Products

The brand name of “Alpha” has been sustained as one of the most prestigious brands of diabetic health products in the PRC. There was an increase by approximately 33% in sales turnover for “Alpha” products over that recorded in the corresponding period in 2003. “Alpha” products contributed approximately RMB8,846,000 to the Group’s turnover in the first quarter of 2004 as it compared with that of approximately RMB6,652,000 recorded in the corresponding period of last year.

The increase was mainly due to the wide acceptance of sugar free almond juice in the market, particular during the period of Chinese new year. In view of the positive market response, the Group will continue to diversify its product variety with the support from its research and development team.

Sales and Marketing

For the period under review, the Group’s sales and marketing expenses amounted to approximately RMB5,036,000, representing approximately 40% of the total turnover for the same period. This recorded an increase of approximately 68% over such expenses recorded in the corresponding period of last year (2003 Q1: RMB2,993,000).

As disclosed in its annual report 2003, the Group has set up the Beijing sales centre for promotion of fungi health products and other personal care products. For the period under review, Tianjin Wan Tai Bio-development Company Limited (“Wan Tai”) also set up a sales office in the city of Tianjin which is principally engaged in the sales of medical equipment accessories.

In conjunction with the increase in promotion expenses for “Alpha” products as mentioned previously, the Group recorded a significant increase in the total sales and marketing expenses in the first quarter of 2004.

Research and Development and Administration

For the period under review, the Group’s research and development and administrative expenses amounted to approximately RMB5,077,000, which was reduced by approximately 11% as it compared with such expenses recorded in the corresponding period in 2003.

The Group has started a cost reduction program by streamlining its operation in order to increase its production efficiency and cost-effectiveness. The total employees of the Group were reduced from 370 by the end of December 2003 to 357 as at 31 March 2004.

Future Outlook

With the support of the government of TEDA, the management of the Group is confident to capture the enormous and endless growing potentials of the PRC market. With the steady growth of diabetic health products, the Group will emphasize on developing new products of medical monitoring equipments. The Group will seek suitable partners to assist in the commercialization of medical and health products whenever necessary and will aim at opening up of new opportunities.

Apart from what has disclosed in its annual report 2003, the Group also plans to develop a series of new fungi products based on the technology developed by Tianjin Yisheng Bioengineering Company Limited (“Yisheng”). The future health products of Yisheng will be in line with the image of the Group, confining to natural fungi products and highlighting the technological features of biomedical engineering.

On the other hand, the management of the Group will continue to streamline the Group’s operation in order to increase its production efficiency and cost-effectiveness. The management hopes to record better results and bring fruitful returns to the shareholders in future.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2004, the interests of the Directors and the 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 | | | | | Total | Percentage of the issued share capital |
|----------------------|---|--------|-----------|-------|------------|-------|--|
| | Personal (note) | Family | Corporate | Other | | | |
| 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 March 2004, none of the Directors and the Supervisors of the Company had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES

At no time during the period under review was the Company, its subsidiaries or its holding company a party to any arrangement to enable the Directors and the 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 March 2004, the following persons (other than the Directors and the 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 <i>(Note 1)</i> | 63.75% |
| Mr. Wu Xiaofang | Beneficial owner | 10,000,000 <i>(Note 1)</i> | 2.5% |
| | Interest of a controlled Corporation | 10,000,000 <i>(Notes 1 & 2)</i> | 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 March 2004, the Directors were not aware of any other person (other than the Directors and the 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 the 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, 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 March 2004.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group and the Company had provided a corporate guarantee to a financial institution for a discounted debt of RMB3,743,700 due by a trade debtor to Wan Tai.

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) with written terms of reference in compliance with the requirements as set out in Rules 5.29, 5.30 and 5.31 of the Rules governing the listing of securities on the GEM of the Stock Exchange (“the GEM Listing Rules”). The primary duties of the Committee are to review and monitor the Company’s financial reporting process and internal control system. The Committee comprises two independent non-executive directors, Professor Xiao Zhuoji and Professor Xan Guoming and Mr. Hao Zhihui, who is a supervisor of the Company.

The Committee has reviewed the first quarterly results and the first quarterly report of the Group for the three months ended 31 March 2004.

SHARE OPTION SCHEME

During the period ended 31 March 2004, none of the Directors or Supervisors or employees or other participants of the share option scheme of the Company was granted with options to subscribe for the H shares of the Company.

PLACING ARRANGEMENT

As disclosed in the announcement of the Company dated 3 February 2004, extraordinary general meetings (“Original EGM”) of the Company were held on 2 February 2004 during which the shareholders of the Company approved the issue of new H Shares of 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 by way of placing (the “Placing”). At the Original EGM, a specific mandate was granted to the Directors to issue the new Placing H shares for an effective period of 3 months from the date of the Original EGM. On 17 March 2004, the proposed Placing was approved by China Securities Regulatory Commission of the PRC. However, due to current stock market conditions, the Directors of the Company have decided to postpone the Placing and to obtain a new specific mandate for an effective period of six months by way of special resolutions at the further extraordinary general meetings to be held on 18 June 2004.

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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the three months ended 31 March 2004, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed shares.

PRACTICES AND PROCEDURES OF THE BOARD

For the three months ended 31 March 2004, the Group has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures.

By Order of the Board
Wang Shu Xin
Chairman

Tianjin, PRC, 13th May 2004

As at the date of this report, the Board of Directors comprises four executive directors, being Wang Shuxin, Xie Kehua, Gu Hanqing, Zheng Dan, three non-executive directors, being Feng Enqing, Liu Zhenyu, Xie Guangbei and two independent non-executive directors, being Xian Guoming and Xiao Zhuoji.