



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



Half-yearly 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

- For the six months ended 30 June 2004, turnover was decreased by 20.8% from the corresponding period of last year and amounted to approximately RMB19,367,000.
- Gross profit decreased by 23.3% from the corresponding period of last year to approximately RMB28,916,000.
- Gross profit margin maintained at 46%, slightly lower than that of 47.5% recorded in the corresponding period of last year.
- Total operating expense including selling and distribution expense and R&D and administrative expense for the three months ended 30 June 2004 decreased to approximately RMB11,035,000, after ignoring the effect of the written off of proprietary technologies of approximately RMB2,800,000, when compared to RMB12,115,000 of the corresponding period in last year.
- Net loss attributable to shareholders amounted to approximately RMB11,910,000, representing an increase of 28.7% from the corresponding period of last year.

## HALF-YEARLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tianjin TEDA Biomedical Engineering Company Limited (the “Company”) is pleased to announce the unaudited half-yearly results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2004, together with the comparative figures for the corresponding period of 2003 as follows:

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the six months ended 30 June		For the three months ended 30 June	
		(Unaudited) 2004 <i>RMB</i>	(Unaudited) 2003 <i>RMB</i>	(Unaudited) 2004 <i>RMB</i>	(Unaudited) 2003 <i>RMB</i>
Turnover	2	19,367,267	24,453,225	6,802,186	12,984,959
Less: sales tax		(34,166)	(79,758)	(14,401)	(41,865)
Cost of sales		<u>(10,416,630)</u>	<u>(12,753,851)</u>	<u>(3,364,066)</u>	<u>(7,125,157)</u>
Gross profit		8,916,471	11,619,616	3,423,719	5,817,937
Selling and distribution costs		(8,982,776)	(8,235,490)	(3,946,696)	(5,242,530)
R&D and administrative expenses		<u>(14,964,878)</u>	<u>(12,559,589)</u>	<u>(9,888,048)</u>	<u>(6,872,624)</u>
Operating loss		(15,031,183)	(9,175,463)	(10,411,025)	(6,297,217)
Other income less other expenses		1,247,513	774,807	995,662	612,229
Amortization on goodwill		(1,416,419)	(151,710)	(1,340,564)	(75,855)
Finance expense	3	<u>(1,417,231)</u>	<u>(825,141)</u>	<u>(745,874)</u>	<u>(443,544)</u>
Loss before tax	4	(16,617,320)	(9,377,507)	(11,501,801)	(6,204,387)
Taxation	5	<u>(9,257)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss after tax		(16,626,577)	(9,377,507)	(11,501,801)	(6,204,387)
Minority interests		<u>4,716,520</u>	<u>120,735</u>	<u>4,510,076</u>	<u>(64,888)</u>
Net loss attributable to the Shareholders		<u>(11,910,057)</u>	<u>(9,256,772)</u>	<u>(6,991,725)</u>	<u>(6,269,275)</u>
		<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Loss per share					
– Basic	6	<u>(2.98) cents</u>	<u>(2.31) cents</u>	<u>(1.75) cents</u>	<u>(1.57) cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 (Unaudited) RMB	31 December 2003 (Audited) RMB
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	7	16,924,366	15,574,287
Construction in progress		340,156	–
Proprietary technologies		–	3,153,436
Goodwill on consolidation		3,360,854	4,665,277
Trade receivable, non-current		6,471,696	6,823,831
Other receivable, non-current		2,067,488	2,131,430
		29,164,560	32,348,261
<b>Current assets</b>			
Inventories		16,595,975	15,392,467
Trade receivables	8	12,233,627	9,223,018
Prepayment and other receivables		5,445,891	8,042,037
Value-added tax (“VAT”) recoverable		1,993,257	1,475,520
Due from Tianjin TEDA International Incubator		1,724,194	1,724,194
Due from minority shareholders of subsidiaries		1,499,128	1,799,128
Due from Directors		2,006	38,076
Restricted deposit		25,043,950	25,043,950
Cash and bank balances		11,562,417	12,912,756
		76,100,445	75,651,146

		<b>30 June 2004 (Unaudited) RMB</b>	<b>31 December 2003 (Audited) RMB</b>
	<i>Notes</i>		
<b>Current liabilities</b>			
Short-term bank borrowings		51,050,000	36,700,000
Trade payable	9	1,697,990	2,200,871
Government grants received in advance		652,008	1,402,008
Other payables and accruals		13,306,932	12,288,799
VAT payable		267,628	408,044
Due to Directors and Supervisors		95,794	166,250
Current portion of finance lease payable		244,615	168,815
Current portion of other long-term liabilities		944,286	1,144,286
		<u>68,259,253</u>	<u>54,479,073</u>
<b>Net current assets</b>		<u>7,841,192</u>	<u>21,172,073</u>
<b>Total assets less current liabilities</b>		<u>37,005,752</u>	<u>53,520,334</u>
Finance lease payable		(1,468,879)	(1,468,879)
Minority interests		(1,357,655)	(5,962,180)
<b>TOTAL NET ASSETS</b>		<u>34,179,218</u>	<u>46,089,275</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	10	40,000,000	40,000,000
Share premium		62,031,951	62,031,951
Capital reserve		2,541,404	2,541,404
Accumulated losses		(70,394,137)	(58,484,080)
		<u>34,179,218</u>	<u>46,089,275</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2004	2003
	(Unaudited) <i>RMB</i>	(Unaudited) <i>RMB</i>
Cash Flows from operating activities:		
Cash used in operation	(13,723,158)	(22,203,239)
Interest received	57,271	147,242
Interest paid	(1,342,418)	(787,389)
	(15,008,305)	(22,843,386)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(538,034)	(825,965)
	(538,034)	(825,965)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term bank borrowings	39,050,000	25,000,000
Repayment of short-term bank borrowings	(24,700,000)	(25,600,000)
Payment of guarantee fee on bank borrowings	(154,000)	–
Contribution by a minority shareholder of a subsidiary	–	1,500,000
Release of restricted deposit by PRC bank	–	24,935,850
	14,196,000	25,835,850
<b>NET INCREASE/(DECREASE) IN CASH AND BANK BALANCES</b>	(1,350,339)	2,166,499
<b>CASH AND BANK BALANCES AT THE BEGINNING OF THE PERIOD</b>	12,912,756	40,527,637
<b>CASH AND BANK BALANCES AT THE END OF THE PERIOD</b>	11,562,417	42,694,136

Notes:

### 1. Basis of presentation

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

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 using technology in the biomedical engineering discipline.

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

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Turnover:				
Diabetic health products	13,606,073	11,385,440	4,760,221	4,733,116
Other medical and health products	5,761,194	13,067,785	2,041,965	8,251,843
	<u>19,367,267</u>	<u>24,453,225</u>	<u>6,802,186</u>	<u>12,984,959</u>

### 3. Finance expense

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Interest expenses on bank loans and bank charges	1,417,231	825,141	745,874	443,544
	<u>1,417,231</u>	<u>825,141</u>	<u>745,874</u>	<u>443,544</u>



#### 4. Loss before tax

Loss before tax is arrived at after charging:

	For the six months ended 30 June	
	2004	2003
	RMB	RMB
Depreciation of property, plant and equipment	1,480,073	870,771
Provision for doubtful debts	–	2,267,353
Amortization of intangible asset	366,666	302,440
Amortization of goodwill	1,416,419	151,710

#### 5. Taxation

##### *Enterprise income tax (“EIT”)*

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

In accordance with the relevant tax rules and regulations applicable to the Company, the Company, being a production Chinese-foreign equity joint stock limited company located in Tianjin Economic-Technological Development Area (“TEDA”), Tianjin, the PRC, 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 Chinese-foreign equity joint venture enterprise located in TEDA, it is eligible for state income tax charged at a reduced rate of 15%. It is also entitled to exemption from state income tax for 2 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. Alpha, being the third year from the first profit-making year, is entitled to 50% reduction of EIT for the year ending 31 December 2004.

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

TEDAX<sup>2</sup> 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. Since TEDAX<sup>2</sup> and Beijing Xinxing are recognized as high and new technology enterprises and are registered in Beijing High and New Technology Development Provisional Zone (“BHNTDPZ”), they are subject to income tax at a reduced rate of 15%. Moreover, TEDAX<sup>2</sup> and Beijing Xinxing shall be entitled to exemption from income tax for three years commencing from the first operation date. Accordingly, TEDAX<sup>2</sup> is exempted from state EIT during the period.

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the assessable profits for the period. The income tax charge in Hong Kong is nil for the period ended 30 June 2004 (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%. The income tax charge in the PRC is RMB9,257 for the period ended 30 June 2004 (June 2003: Nil).

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

	<b>For the six months ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2004</b>	<b>2003</b>
	<i>RMB</i>	<i>RMB</i>
Loss before tax	(16,617,320)	(9,377,507)
Calculated at a taxation rate of 33% (2003: 33%)	(5,483,716)	(3,094,577)
Effect of tax holiday exemption	–	(152,382)
Tax rate differential	2,470,998	–
Effect of the tax losses on consolidation	4,091,360	3,191,488
Tax effect of expenses that are not deductible in determining taxable profit	(1,069,385)	55,471
	<u>9,257</u>	<u>–</u>
Tax expenses for the period	<u>9,257</u>	<u>–</u>

## **6. Loss per share**

The calculation of the basic loss per share for the six months ended 30 June 2004 was based on the unaudited loss attributable to shareholders for the period in the sum of RMB11,910,056 (2003: RMB9,256,772) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2003: 400,000,000 shares).

The calculation of the basic loss per share for the three months ended 30 June 2004 was based on the unaudited loss attributable to shareholders for the period in the sum of RMB6,991,725 (2003: RMB6,269,275) divided by the weighted average number of shares issued during the period of 400,000,000 shares (2003: 400,000,000 shares).

Diluted loss per share is not presented as there is no dilutive potential shares (2003: no diluted loss per share).

## **7. Additions to property, plant and equipment**

During the period, the Group spent approximately RMB2,830,152 (2003: RMB490,678) on the acquisition of property, plant and equipment.

## 8. Trade receivable, current assets

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

	<b>30 June 2004 (Unaudited) RMB</b>	<b>31 December 2003 (Audited) RMB</b>
Trade receivable, current assets	15,828,600	12,817,991
Provision for doubtful accounts	(3,594,973)	(3,594,973)
	<hr/>	<hr/>
Trade receivable, net	<u>12,233,627</u>	<u>9,223,018</u>

The aging analysis of trade receivable, current assets is as follows:

	<b>30 June 2004 (Unaudited) RMB</b>	<b>31 December 2003 (Audited) RMB</b>
Within 3 months	6,024,464	5,712,530
Over 3 months but within 6 months	3,864,523	2,938,882
Over 6 months	5,939,613	4,166,579
	<hr/>	<hr/>
	<u>15,828,600</u>	<u>12,817,991</u>

## 9. Trade payable

The aging analysis of trade payable is as follows:

	<b>30 June 2004 (Unaudited) RMB</b>	<b>31 December 2003 (Audited) RMB</b>
Within 3 months	922,025	1,175,463
Over 3 months but within 6 months	410,696	835,570
Over 6 months	365,269	189,838
	<hr/>	<hr/>
	<u>1,697,990</u>	<u>2,200,871</u>

## 10. Share capital

	30 June 2004		31 December 2003	
	Number of shares	Nominal value <i>RMB'000</i>	Number of shares	Nominal value <i>RMB'000</i>
Registered	<u>400,000,000</u>	<u>40,000</u>	<u>400,000,000</u>	<u>40,000</u>
Issued and fully paid				
Domestic shares of				
RMB0.1 each	300,000,000	30,000	300,000,000	30,000
H shares of RMB0.1 each	<u>100,000,000</u>	<u>10,000</u>	<u>100,000,000</u>	<u>10,000</u>
	<u>400,000,000</u>	<u>40,000</u>	<u>400,000,000</u>	<u>40,000</u>

## 11. Charges on group assets

As at 30 June 2004, fixed deposit of HK\$23.5 million was pledged as security for granting of loans and letter of credit facilities to the Company by a PRC licensed bank.

## 12. Capital commitments

As of 30 June 2004, the Group had no significant capital commitments which were not provided for in the condensed consolidated financial statements of the Group.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Segmental information

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

The results of the Group segregated by segments for the six months ended 30 June 2004 and for the three months ended 30 June 2004 as compared to the corresponding periods in 2003 are analysed as follows:

	For the six months ended 30 June		For the three months ended 30 June	
	2004	2003	2004	2003
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Segment revenues				
Diabetic health products	13,606,073	11,385,440	4,760,221	4,733,116
Other medical and health products	5,761,194	13,067,785	2,041,965	8,251,843
Segment results				
Diabetic health products	(1,266,773)	344,972	(1,115,462)	(16,476)
Other medical and health products	(10,643,284)	(9,601,744)	(5,876,263)	(6,252,799)

#### Consolidated statement of movements in equity

	Share Capital <i>RMB</i>	Accumulated losses <i>RMB</i>	Share premium <i>RMB</i>	Capital reserve <i>RMB</i>	Total <i>RMB</i>
Balance as at 1 January 2003 (Audited)	40,000,000	(33,642,301)	62,031,951	2,541,404	70,931,054
Net loss attributable to the shareholders for the three months ended 31 March 2003	—	(2,987,497)	—	—	(2,987,497)
Balance as at 31 March 2003 (Unaudited)	40,000,000	(36,629,798)	62,031,951	2,541,404	67,943,557
Net loss attributable to the shareholders for the three months ended 30 June 2003	—	(6,269,275)	—	—	(6,269,275)
Balance as at 30 June 2003 (Unaudited)	<u>40,000,000</u>	<u>(42,899,073)</u>	<u>62,031,951</u>	<u>2,541,404</u>	<u>61,674,282</u>

	Share Capital <i>RMB</i>	Accumulated losses <i>RMB</i>	Share premium <i>RMB</i>	Capital reserve <i>RMB</i>	Total <i>RMB</i>
Balance as at 1 January 2004 (Audited)	40,000,000	(58,484,080)	62,031,951	2,541,404	46,089,275
Net loss attributable to shareholders for the three months ended 31 March 2004	—	(4,918,331)	—	—	(4,918,331)
Balance as at 31 March 2004 (Unaudited)	40,000,000	(63,402,411)	62,031,951	2,541,404	41,170,944
Net loss attributable to shareholders for the three months ended 30 June 2004	—	(6,991,726)	—	—	(6,991,726)
Balance as at 30 June 2004 (Unaudited)	<u>40,000,000</u>	<u>(70,394,137)</u>	<u>62,031,951</u>	<u>2,541,404</u>	<u>34,179,218</u>

### Foreign currency risk

The Group has no significant foreign exchange risk since all of 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 during the period under review.

### Liquidity, financial resources and capital structure

During the period under review, the Group's primary source of fund was cash proceeds derived from banking facilities granted by PRC banks and the placing of the Company's H shares in June 2002. As at 30 June 2004, the Group had bank and cash balances amounted to approximately RMB11,562,000 (31 December 2003: RMB12,912,000), restricted deposit of RMB25,044,000 (31 December 2003: RMB25,044,000), short term bank borrowings of RMB51,050,000 (31 December 2003: RMB36,700,000). The bank borrowings are denominated in Renminbi and provided by various PRC banks in fixed interest rates within the range from 5.31% to 6.903% per annum (31 December 2003: 5.31% to 6.903%). The major portion of the bank borrowings in the sum of RMB22,000,000 will be matured on 22 June 2005. The remaining portion of total bank borrowings will be matured on variable dates from 30 September 2004 to 3 February 2005.

As at 30 June 2004, the Group had total assets of approximately RMB105,265,000 (31 December 2003: RMB107,999,000) which were financed by current liabilities of approximately RMB68,259,000 (31 December 2003: RMB54,479,000), shareholders' equity of RMB34,179,000 (31 December 2003: RMB46,089,000) and minority interests of approximately RMB1,358,000 (31 December 2003: RMB5,962,000).

As at 30 June 2004, the Group's gearing ratio, defined as the ratio between the total bank borrowings and the total assets, was 0.48 (31 December 2003: 0.34). The liquidity ratio of the Group, represented by a ratio of the current assets over the current liabilities, was 1.11 (31 December 2003: 1.39).

### **Charges on the Group's assets and contingent liabilities**

As at 30 June 2004, restricted deposit of HK\$23.5 million was pledged as security for granting of loans of RMB15 million to the Company and for the letter of credit facilities by a PRC licensed bank (2003: no pledging of fixed deposits).

The Group had contingent liabilities of RMB3.7 million in connection with the factoring of accounts receivable to a financial institution in the PRC (2003: no significant contingent liabilities). In July 2004, approximately RMB1.3 million was received and therefore the contingent liability was reduced by the corresponding amount accordingly.

### **Major acquisition and disposal**

In the second quarter of 2004, the Company and Wan Tai acquired the remaining 40% of the equity share capital of TEDAX<sup>2</sup> from the minority shareholders at nil consideration and as a result, the Group's effective control of TEDAX<sup>2</sup> was increased to 99.7% of its equity share capital (2003: no major acquisition/disposal).

### **Staff cost information**

For the six months ended 30 June 2004, the salary cost of the Group was approximately RMB4,686,000 (2003: RMB5,259,000). The decrease in salary cost was mainly due to the decrease in number of employees from 401 (as at 30 June 2003) to 334 (as at 30 June 2004). Salary of the employees was determined on the basis of their performance and the market trend.

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

## **Treasury policy**

Since there is no foreign exchange risk, the Group's bank borrowings are denominated in Renminbi and usually renew for one year when they become matured. The cash derived from the placing of H shares of the Company in June 2002 will be utilized according to the schedule of use of proceeds set out in the paragraph headed "Use of proceeds" under the section headed "Business objectives" of the prospectus of the Company dated 10 June 2002 and the annual report 2003 of the Company dated 18 March 2004. In the meantime, any surplus cash is placed as time deposit with PRC licensed bank.

## **Business review**

For the six months ended 30 June 2004, turnover of the Group amounted to approximately RMB19,367,000, representing a decrease of 20.8% from the corresponding period of last year. The gross profit margin of 46% was slightly lower than 47.5% of last year. For the six months ended 30 June 2004, total gross profit was reduced to approximately RMB8,916,000, representing a decrease of 23.3% from the corresponding period of last year. Net loss attributable to shareholders also increased from approximately RMB9,257,000 to RMB11,910,000, mainly due to decrease in turnover and profit margin when compared to corresponding period last year.

The sale of i) diabetic health products and ii) medical and other health products under the brand names of "ALPHA" and "TEDA" contributed to approximately 70% and 30% respectively to the Group's total turnover for the six months ended 30 June 2004.

## **Medical equipment and biomaterials**

On 30 June 2004, the Group obtained the Production Registration Certificate of intraocular lens (IOL) which was issued by State Food and Drug Administration (SFDA) of the PRC. By virtue of this certificate, the Group is able to produce and sell IOL which are used for the surgery operation of cataract patients.

Currently, the Group contracted with one distributor for the sale of 40,000 pieces of IOL in the first year commencing 1 July 2004. With the increase in the production volume of IOL in the near future, the sales of IOL will also be increased. In addition to normal IOL, the Group shall continue in the development and registration of surface modified IOL and expects that this can be launched to the market in 2005.

Apart from IOL, the Group continued to launch medical equipment under the "TEDA" brand name through its subsidiary, Beijing TEDAX<sup>2</sup> medical engineering Co Ltd ("TEDAX<sup>2</sup>"). The major products include sleeping status monitoring equipment and multi-parameter monitoring equipment. During the first half of 2004, TEDAX<sup>2</sup> contributed approximately RMB4,415,000 to the Group's sales turnover (2003: RMB6,218,000). The decrease in sales contributed by TEDAX<sup>2</sup> was mainly due to the fierce competition of the market of medical equipment.



The Group expects that the sales of TEDAX<sup>2</sup> will be recovered in 2005 when the hospitals in PRC have sufficient financial resources to invest in new and advanced medical equipments.

### **“ALPHA” health products**

Traditionally, summer season is the slack period for the sales of Alpha products. This can be evidenced by the fact that the total sales of Alpha products in the second quarter of 2004 was approximately RMB4,760,000 which is almost the same when compared with the corresponding period of last year (2003 Q2: RMB4,733,000).

Therefore, although Alpha recorded total sales of approximately RMB13,606,000 in the first half of 2004 (2003: 11,385,000), the increase in sales was mostly contributed by the increase in the first quarter of 2004. The expected increase in sales for the second half year will depend on the sales of sugar free mooncake and another new product to be launched to the market. This new product is sugar free orange juice which is estimated to be introduced to the PRC market in the third quarter of 2004. Due to the above factors, the Directors expect that the performance of Alpha will be better than last year.

### **Sales and marketing**

During the period under review, the Group’s sales and marketing expenses amounted to approximately RMB8,983,000, which is approximately 9% higher than that incurred in the same period of last year (2003: RMB8,235,000). This is mainly due to the increase in promotion and marketing expenses for “Alpha” products.

In order to increase the efficiency of the Group’s sales force, the Group will unite the strength of Beijing sales centre and Tianjin sales office for selling the Group’s products.

Tianjin Wan Tai Bio-development Company Limited (“Wan Tai”) and TEDAX<sup>2</sup> will work together for the sales and marketing promotion of the Group’s medical equipment including sleeping status monitoring equipment, multi-parameters monitoring equipment and medical equipment accessories.

As disclosed in the third quarterly report 2003 of the Company, Tianjin Yisheng Bioengineering Co Ltd (“Yisheng”) changed the sales model of its products from traditional retail shop sale to distribution sale through chain stores and this proved to be a success. After repackaging, the sales of Yisheng health care products recorded a total of approximately RMB580,000 in the first half of 2004. The Directors expect the sales of Yisheng products will continue to rise after the launch of various health care products of other fungi series based on the technology developed by Yisheng.

In order to obtain timely market information for the whole group, the Group will set up a centralised marketing department for consolidating information from various sources. Based on the principle of “resources sharing”, all subsidiaries of the Group will be benefited by obtaining marketing information from this centralised marketing department.

### **Cost reduction**

Since May 2004, the Group started a cost reduction program by streamlining its operation. After ignoring the effect of the written off of proprietary technologies of approximately RMB2,800,000, the total operating expenses including selling and distribution expense and research and development and administrative expense for the second quarter of 2004 amounted to approximately RMB11,035,000 which is decreased by approximately 9% from the corresponding period of last year (2003 Q2: RMB12,115,000). The Group shall continue to adopt a tight control policy for governing its daily spending and would evaluate the cost effectiveness of capital expenditure budget before approving the purchase.

### **Future prospects**

The Group is positioned to be engaged in the health business which comprises two platforms: personal health products such as “Alpha” and “Yisheng” products; medical equipment and biomaterials such as sleeping status monitoring equipment, multi-parameters monitoring equipment and IOL.

The management of the Group will continue to streamline its operation in order to cope with the development of the above two platforms. This needs improvement of business strategies, motivation of personnel as well as built up of strong management team. The Group has determined to develop towards such direction.

The design of “床墊式” sleeping status monitoring equipment is expected to be completed by the end of third quarter of 2004 and after obtaining the registration certificates for medical device of several improved models of sleeping status monitoring equipment (i.e. SRM-9600, SRM-9601 and SRM-9602) in the first half of 2004, the direct sales of medical equipment by the Group could be strengthened.

With the probable success of soft landing of the economy of the PRC in this year, the Directors believe that the Group will have a bright future in its health business through continuous streamlining of its operation and the set up of advanced sales model through chain stores for the sale of personal health products.

## Comparison of business objectives with actual business progress

A comparison of the business objectives with the Group's actual business progress is set out below:

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

### **Actual business progress up to 30 June 2004**

Research and development of new medical and health products:

#### **(a) Clinical catheters**

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|--|--|
| <ul style="list-style-type: none"><li>• Trial production permit obtained</li><br/><li>• Continued research and development of silicone rubber catheters and silicon rubber medical catheters</li></ul> | <ul style="list-style-type: none"><li>• Trial production permit not yet issued by SFDA</li><br/><li>• Continued research and development of silicone rubber catheters and silicon rubber medical catheters</li></ul> |
|--|--|

#### **(b) Dialysis equipment**

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>• research and development of resin for the absorption of organic phosphorous and the absorption of high lipemia</li><br/><li>• research and development of absorption material for Bilirubin and absorption material for treating liver failure</li><br/><li>• Production commenced</li></ul> | <ul style="list-style-type: none"><li>• Continued research and development of resin for the absorption of organic phosphorous and the absorption of high lipemia</li><br/><li>• Continued research and development of absorption material for Bilirubin and absorption material for treating liver failure</li><br/><li>• Since production permit has not been obtained, production of dialysis equipment has not yet commenced</li></ul> |
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**Business objectives as stated in the prospectus dated 10 June 2002**

**Actual business progress up to 30 June 2004**

**(c) Surface modified intraocular lens**

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|--|--|
| <ul style="list-style-type: none"><li>• Apply for production permits</li><br/><li>• Commence research and development on injectible gel lenses</li><br/><li>• Continue research and development on surface modification engineering</li><br/><li>• Commence research and development of soft artificial lenses</li></ul> | <ul style="list-style-type: none"><li>• Obtained the registration certificate of normal IOL in June 2004. This is the first step for obtaining registration certificates for surface modified IOL in future</li><br/><li>• Commenced research and development on injectible gel lenses</li><br/><li>• Continued research and development on surface modification engineering</li><br/><li>• Commenced research and development of soft artificial lenses</li></ul> |
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**(d) Sodium hyaluronate**

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|---|---|
| <ul style="list-style-type: none"><li>• Produce 1-2 new products such as eye drop and medical lavation</li><br/><li>• Trial production permit for tissue adhesion prevention sodium hyaluronate obtained</li><br/><li>• Commence research and development of sodium hyaluronate eye drops</li><br/><li>• Production certificate relating to the application of sodium hyaluronate to fluids for medical uses obtained</li></ul> | <ul style="list-style-type: none"><li>• The production registration certificate under the name of TEDA Biomaterial and Medial Engineering Institute is in the process of transferring to the Company, therefore the development of new products was delayed</li><br/><li>• Due to the reason set out above, the trial production permit has not been obtained</li><br/><li>• Continued research and development relating to sodium hyaluronate eye drops</li><br/><li>• Production registration certificate relating to the application of sodium hyaluronate to fluids for medical uses not yet obtained</li></ul> |
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**Business objectives as stated in the prospectus dated 10 June 2002**

**Actual business progress up to 30 June 2004**

**(e) Breast implants**

- Continue research and development on aquagel breast implants
- After evaluation of the R&D result, the project of aquagel breast implants was stopped

**(f) Tissue engineering**

- Commence research on skin tissue
- Continued research on skin tissue
- Commence research on human cell division
- Continued research on human cell division
- Commence research on human liver cell growth reactor
- Continued research on human liver cell growth reactor

**(g) Medical monitoring systems**

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

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

**Actual business progress up to 30 June 2004**

**(h) Biological organic vanadium for diabetic patients**

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|--|---|
| <ul style="list-style-type: none"><li>• Expect to receive approval for the production of biological organic vanadium</li><br/><li>• Commence production of biological organic vanadium</li><br/><li>• Commence advertising and marketing for biological organic vanadium products</li><br/><li>• Further research for more new products to be derived or produced from biological organic vanadium</li></ul> | <ul style="list-style-type: none"><li>• Continued research and development of biological organic vanadium with the Pharmaceutical Research Centre of the PRC Science and Medical Institute and Nankai University and the application for production permit had not yet submitted</li><br/><li>• Due to the reason that the R&amp;D of biological organic vanadium was not completed, production had not yet commenced</li><br/><li>• Since the production of biological organic vanadium was not commenced, the advertising and marketing for such products had been postponed</li><br/><li>• Continued identification for new products which may be derived from biological organic vanadium based on existing research activities</li></ul> |
|--|---|

**(i) Herbal research**

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| <ul style="list-style-type: none"><li>• Select herbs and plant extracts which have the effect of lowering glucose levels in the blood including garlic, Chinese goldthread bitter melon, ginseng and commence research and development as to application and rises of such herbs in diabetic health products</li></ul> | <ul style="list-style-type: none"><li>• Selected “coprinus ovatus” herbs which have passed human tests of lowering blood glucose level and commenced research and development of its application in enhancing body strength when used by human being. A joint venture namely “Tianjin Yisheng Bioengineering Co. Ltd.” was set up in February 2003 for the production of such products</li></ul> |
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**Business objectives as stated in the prospectus dated 10 June 2002**

**Actual business progress up to 30 June 2004**

**Develop strategic alliances**

- Active participation by the Group's professional personnel in seminars and conferences of related industries
- During April 2004, the Group participated in the National Spring Exhibition of medical equipments in Wuhan. Also TEDAX<sup>2</sup> participated in the local exhibitions in Shenyang, Qingdao, Nanjing, Taiyuen and Beijing in the first half of 2004
- Seek for and establish new strategic alliance partners in further developing the Group's business activities in the PRC and possibly overseas
- Continued seeking for appropriate strategic alliance partners in further developing business activities in the PRC

**Expansion of research facilities**

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

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

**Actual business progress up to 30 June 2004**

**Expansion of distribution network**

- Establish approximately a further 20 treatment centres using the Group's BME products
- Progressively build up distribution network of medical and health products using technology in the Biomedical Engineering discipline (other than diabetic health products)
- Expand sales force of Wan Tai to at least 60 persons
- Open representative office for Wan Tai in Shanxi, Inter-mongolia, Henan, Hubei, Hunan, Anhui, Chongqing, Sichuan, Yunnan
- Continue television advertising campaign for the Group's diabetic health products in a number of Chinese cities
- Commence marketing and distribution of the Group's products including Curcumin
- Open liaison office(s) in overseas market
- The negotiation with various hospitals in PRC for the cooperation in setting up treatment centres was recently resumed
- After set up of TEDAX<sup>2</sup>, the original distribution network developed by China Xinxing Medical and Pharmaceutical Technology Development Corporation ("China Xinxing") in northern part of China could be utilized for our medical and health products. Also the Group contracted with 鄭州愛邦眼科器械有限公司 ("鄭州愛邦") for the sale of IOL in the southern part of China by utilising the distribution network already developed by 鄭州愛邦
- There were 9 marketing and sales employees in Wan Tai and totally 74 sales staff in the Group as at 30 June 2004
- Branch office in Tianjin was established for Wan Tai and representative offices in other places will be opened after the evaluation of business opportunities
- Television advertisements for the Group's diabetic health products were launched in the cities of Shanghai and Tianjin
- Since the approval certificate for the production of Curcumin has not been issued by SFDA, the marketing and distribution for such products was delayed
- Market study for overseas market continued



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

**Actual business progress up to 30 June 2004**

**Accelerating the commercialisation of products developed**

- |   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Grant of production licence for Curcumin</li><br/><li>• Commence commercial production, marketing and promotion of Curcumin</li><br/><li>• Continue production of sodium hyaluronate through the Proposed Sodium Hyaluronate Joint Venture</li><br/><li>• Commence production of blood plasma separation equipment and blood purification equipment through the Proposed Blood Purification Equipment Joint Venture</li><br/><li>• Finalise investment in the Proposed BME Joint Venture and commence production of diabetic treatment equipment through the proposed BME Joint Venture</li></ul> | <ul style="list-style-type: none"><li>• The application for the production licence for Curcumin was still under review by SFDA and production licence had not been granted</li><br/><li>• Since the production licence for Curcumin was not obtained, production, marketing and promotion of Curcumin had not yet commenced</li><br/><li>• Since the Proposed Sodium Hyaluronate Joint Venture had not been established, there was no production of sodium hyaluronate. The research and development of medical grade sodium hyaluronate shall be carried out by the Group in future after identifying suitable cooperation partner</li><br/><li>• As disclosed in the Company's annual report 2003, Ningbo Development Zone Blood Purification Equipment Company was suffered from financial difficulties and therefore the cooperation in setting up the proposed Blood Purification Equipment Joint Venture was suspended. Production will not commence</li><br/><li>• As disclosed in the Company's annual report 2003, the plan of the formation of the Proposed BME joint Venture through the cooperation with Mr. Shen Cunzheng was abandoned. The plan of production of diabetic treatment equipment was stopped</li></ul> |
|---|--|

	<b>USE OF PROCEEDS AS STATED IN THE PROSPECTUS (RMB million)</b>	<b>ACTUAL AMOUNT UTILIZED UP TO 30 JUNE 2004 (RMB million)</b>
Research and development	2.5	2.1
Expansion of production facilities	16.3	4.1
Expansion of marketing and distribution network	5.5	6.8
Accelerating the commercialisations of products	35.2	11.9
Establishment of treatment centres	5.0	0.0
Working capital	10.0	24.7
	<hr/>	<hr/>
<b>TOTAL</b>	<b>74.5</b>	<b>49.6</b>
	<hr/>	<hr/>

As disclosed in the Company's annual report 2003, the Group is still looking for investment opportunities in suitable new projects relating to the businesses of the Group. The remaining portion of cash proceeds raised in June 2002 amounting to approximately RMB25 million will be used for 2 areas: (i) the establishment of treatment centres; and (ii) the investment in suitable new projects.

The negotiation with various hospitals for the establishment of treatment centres in local big cities has recently resumed and the Group expects that the schemes for such establishment could be finalized in the second half year of 2004. On the other hand, the Group is in the process of identifying certain suitable new projects for investment purpose and once these are finalized and approved by the Board, relevant disclosures will be made by announcements posted on the GEM website to the public.

Should the required use of fund for investing in suitable new projects exceeds the remaining portion of the fund raised in June 2002, additional funding will be sourced from the placing arrangement as disclosed in the Circular dated 19 December 2003.

In the first half year of 2004, the funding for the expansion of marketing and distribution network and working capital was sourced from new bank borrowings from licensed PRC banks. The Board determines to adopt this policy in the future operation of the Group so as to improve the efficiency and cost effectiveness for the use of fund.

## Directors' and Supervisors' interests and Short Positions in shares, underlying shares and debentures

As of 30 June 2004, the interests of the Directors and the Supervisors of the Company and their respective associates in the Company and its associated corporations were as follows:

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

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

*Note:* All represented domestic shares

Save as disclosed in this paragraph, as at 30 June 2004, none of the Directors and 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 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 30 June 2004, the following persons (other than the directors and supervisors of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:–

*Long position in 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 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 30 June 2004, 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 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 30 June 2004.

## **Competing interests**

During the six months ended 30 June 2004, none of the Directors, Supervisors, or the management shareholders and their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competed or might compete with the business of the Group.

## **Placing arrangement**

Pursuant to a placing mandate signed between the Company and Sun Hung Kai International Limited (“SHK”) dated 3 December 2003, 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.

At the extraordinary general meeting (EGM) held on 2 February 2004, the shareholders of the Company passed the resolutions in respect of: (i) the Specific Mandate (as defined therein); (ii) the use of 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 the further EGM held on 18 June 2004, the shareholders of the Company passed the resolution to extend the time for completion of the proposed placing of new H shares of the Company to within six months after the date of further EGM.

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 finalized, the amount of the placing price will be set out in the relevant Underwriting Agreement and relevant announcement will be made accordingly.

## **Audit Committee**

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

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness of both the external and internal audit and of internal control and risk evaluation. The Audit Committee comprises two independent non-executive Directors, namely Professor Xian Guoming and Professor Xiao Zhuoji, and Mr. Hao Zhihui, who is a supervisor of the Company. Two Audit Committee meetings were held during the six months ended 30 June 2004.

## **Share option scheme**

During the six months ended 30 June 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. As at 30 June 2004, none of the Directors or Supervisors or employees or other participants of the share option scheme of the Company had any right to acquire the H shares in the Company.

## **Purchase, sale or redemption of securities**

During the six months ended 30 June 2004, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's shares.

## **Compliance with Rules 5.34 to 5.45 of the GEM Listing Rules**

For the six months ended 30 June 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, 10 August 2004

*As at the date of this report, the Board 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.*