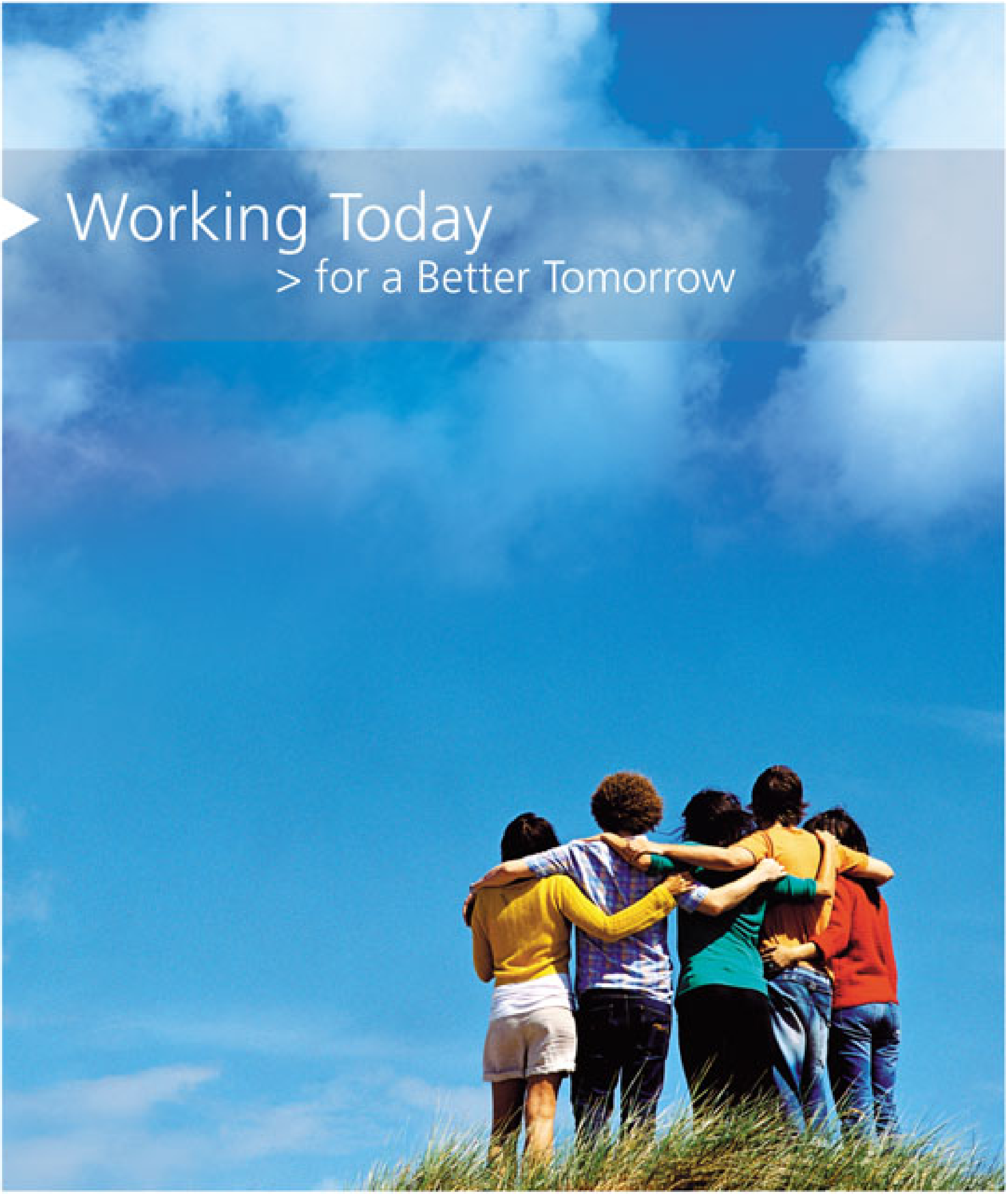
天津泰達生物醫學工程股份有限公司
Tianjin TEDA Biomedical Engineering Company Limited

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

ANNUAL REPORT 2004

Working Today
> for a Better Tomorrow



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board operated by the Stock Exchange and no assurance is given that there will be liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcement in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at "www.hkgem.com" in order to obtain up-to-date information on GEM-listed issuers.

Content

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, diabetic health products and eco-agricultural 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.

Eco-agricultural Products

Products include compound and biological fertilizers.

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)

99.7%

Beijing TEDAX[2] Medical Engineering Company Limited

(principally engaged in the manufacture and sales of monitoring equipment including sleeping status monitoring 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 HealthCare Products Co., Ltd.

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

51%

Shandong TEDA Bioengineering Co. Ltd.*

(principally engaged in the manufacture of eco-agricultural 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 18 September 2004

CORPORATE INFORMATION

Executive Directors
Mr. Wang Shuxin
Mr. Xie Kehua
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
Ms. Zhao Xiuying

Supervisors
Mr. Hao Zhihui
Mr. Yuan Wei

Independent Supervisors
Mr. Chang Zheng
Mr. Zhu Gang

Company Secretary
Mr. Yip Pak Shing, Edmund, CPA

Qualified Accountant
Mr. Yip Pak Shing, Edmund, CPA

Compliance Officer
Ms. Zheng Dan

Audit Committee
Professor Xiao Zhuoji
Professor Xan Guoming
Ms. Zhao Xiuying

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

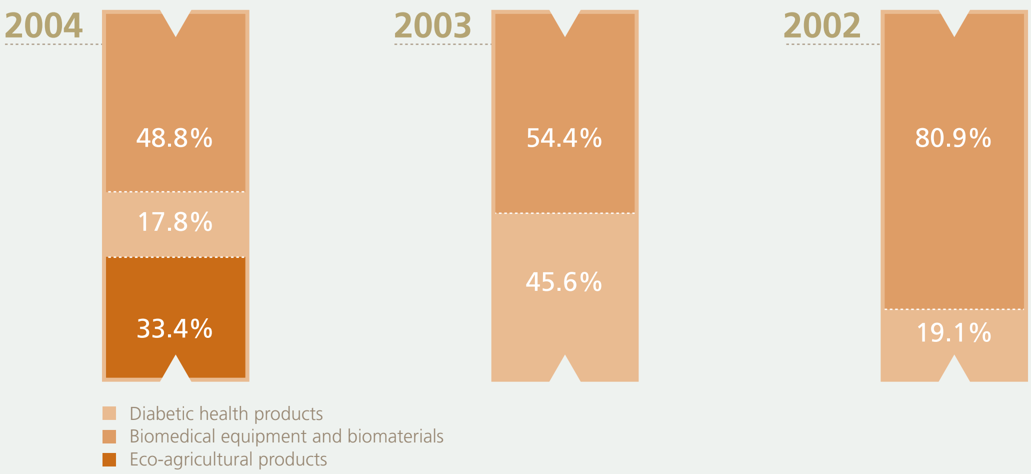
Stock Code
8189

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Results			
Turnover	58,646	47,305	30,431
Gross profit	20,961	22,413	14,785
Gross margin	35.7%	47.4%	48.6%
Loss attributable to shareholders	(15,546)	(24,842)	(13,849)
Loss per share	(3.89) cents	(6.21) cents	(3.96) cents

	For the year ended 31 December		
Assets & Liabilities	2004 RMB'000	2003 RMB'000	2002 RMB'000
Total assets	123,656	107,999	117,051
Total liabilities	93,113	61,910	46,120
Shareholders' equity	30,543	46,089	70,931

TURNOVER BREAKDOWN



Opening the Wonders of Nature:

the market of medical and health products

FOOD
MEDICINE
LIFE
HEALTH

CHAIRMAN'S STATEMENT

Working for the Health of Mankind:

Dear Shareholders,

On behalf of the Board, I am pleased to present this annual report of TEDA Biomedical for the year ended 31 December 2004.

The year 2004 was the Group's last accounting year of its sponsored period after being listed on the GEM, and marked a mature and stable year for the Group. In developing new products, the Group attained fruitful results. Nine products including intraocular lens, sleeping status monitoring equipment and network monitoring equipment were granted registration certificates. Whilst the Group's sales network was successfully expanded, the Group achieved a breakthrough in the new eco-agricultural fertiliser industry.

Business Review

During the 2004 fiscal year, the Group's turnover from diabetic health products and other medical and health products dropped by 15%. However, with sales from a new line of business, eco-agricultural fertilisers, the overall Group turnover reached RMB58.6 million, representing a rise of 24% as compared with 2003, whereas gross profit decreased 6.5% to RMB21 million. The Group continues to actively develop new products and expand its sales network, while at the same time strives to fine-tune its management and sales team to enhance its management efficiency as well as apply stringent controls on its expenditure, well-positioning the Company for future development.

During the year under review, loss attributable to shareholders decreased 37.4% from RMB24.8 million of 2003 to RMB15.5 million. The decrease was primarily due to cost savings.

During the year under review, the Group cautiously analysed the growth characteristics of high technology ventures, and from its wide range of products selected health food products, medical equipments and bio-agricultural fertilisers as its main focus for development. Amongst Alpha's seven product lines, almond juice achieved rapid growth, with sales surging 80% over last year. Our new investment established in September 2004, Shandong TEDA Bio-engineering Co., Ltd. ("STEDA"), is specialised in the production and sales of bio-agricultural fertilisers. STEDA smoothly established its foothold under the encouragement of agricultural developments in the PRC and has commenced constructions of its plants.

Development Outlook

With the advancement of scientific technologies and information technology becoming popular, our healthcare products segment will focus on distribution. The Group will leverage on its existing sales network to develop e-commerce business by means of chain operations and logistics delivery, so as to provide real-time all-round services to healthcare products consumers.

We will base on our high technology foundation to progress on the development of medical equipment, and to further develop reliable, user-friendly and durable products with reasonable prices, so as to attract more consumers' interests while gradually advance towards Home Health Care Engineering for applications such as emergency home medical treatments.

Representing only 7% of the land cultivated and a population of 22% of the world's population, the PRC is currently the largest producer and consumer of chemical fertilisers. The consumption of compound fertilisers represents 22% of the total consumption of chemical fertilisers of the PRC and, compared with an average global level of 30%, is far below the 80% level of that of developed countries. 50% of the total volume of compound fertilisers consumed in the PRC is imported. The Group will grasp this good opportunity to enter this market with enormous capacity and bright outlook, and to create a brandname as a high-technology quality compound fertiliser producer.

With our sound business development strategies, coupled with the extensive experience of our management and our research and development capabilities, as well as our well-established market network built over the years, the Group's management believe that the Group is well set on the right track for fruitful returns.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude to all business partners, customers and shareholders of TEDA Biomedical for their support, and thank all our staff for their loyal dedications. We look forward to welcoming a prosperous future ahead.

Wang Shuxin
Chairman

15 April 2005

Shaping the Prominent Technologies: the elite and equipment in TEDA Biomedical

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the year ended 31st December, 2004, Tianjin TEDA Biomedical Engineering Company Limited ("TEDA Biomedical" or the "Company") was engaged in health business in two major areas: (1) personal health products such as diabetic health food under the brandname of "Alpha" and fungi health products under the brandname of "Yisheng"; and (2) medical equipment and biomaterials such as sleeping status monitoring equipment, multi-parameters monitoring equipment and intraocular lens ("IOL"). The sales of such products were made either directly to the Group's customers or through the Group's distribution network. In 2004, the Group expanded the distributor network for the Alpha's products throughout the PRC and set up its own sales offices in Zhengzhou, Chengdu, Shijiazhong and Shenyang for its medical equipment and accessories. For direct sales, the Group's sales teams worked successfully in the promotion and sales of the Group's fungi health products as well as other personal care products.

In the second half of 2004, TEDA Biomedical launched a new product of IOL to the market after obtaining the production registration certificate of IOL in June 2004. This also paved the way of obtaining registration certificates for surface modified IOL in future. On the other hand, the Group also introduced the new products of skin care products and functional cotton to the market through its direct sales teams.

After the set up of Shandong TEDA Bio-engineering Co., Ltd. ("STEDA") in September 2004, the Group commenced a new business of the research and development, production and sale of eco-agricultural products including biological fertilizer, compound fertilizer, mixed fertilizer and plant fertilizer.

Operating Environment

In 2004, the PRC's economy continued to demonstrate a strong growth momentum after the effective control of the spreading of SARS in the second half year of 2003. However, the business environment in every aspects of the PRC market was highly competitive, particular in the field of medical equipment and accessories.

On the other hand, the sales market of the fungi health products had turned hot in the second half year of 2004. One of the reasons is that the general public in the PRC mostly become aware of the importance of the maintenance of health. Another reason is that the Group adopted a new marketing approach of using direct sales network. After the introduction of laws and regulations on the direct sales by the PRC central government which is expected to be announced in 2005, the Group expects that the operating environment in this field will become more disciplined.

.

Having obtained the production registration certificate for IOL for cataract patients at the end of June 2004, the Group was successful in launching the new product to the

market and proved to be widely acceptable by the hospitals and the doctors who perform the operation. The Group believes that there will be a bright future for the production and sale of IOL in the years to come, when the Group is able to introduce more new products to the market such as surface modified IOL.

The Group's diabetic health food continued its steady growth in sales in the past year. These products are well received by the market due to Alpha brand name. Apart from diabetic health food, Alpha was aggressively tapping the market of sugar-free products by introducing sugar-free biscuits, sugar-free almond juice and sugar-free mooncakes. More and more people in the PRC have recognized the importance of the consumption of sugar-free health food for the purpose of maintaining the healthy condition of human body.

Financial Highlights

During the year ended 31 December 2004, sale of other medical and health products was decreased whilst growth of sales income derived from Alpha's diabetic health remained steady. With sales of eco-agricultural products which belongs to a new business line, the Group's total turnover was approximately RMB58.6 million, (excluding other revenues) representing an increase of 24% as compared with the turnover in 2003.

In September 2004, the Company formed a Sino-foreign equity joint venture enterprise, STEDA, in which the Company held 51% equity interest. From 18th September, 2004 (the date of its incorporation) until the end of 2004, STEDA contributed approximately RMB19.6 million to the Group's sales turnover, about 80% of which relates to a major sale of raw materials of RMB15.7 million resulting in a gross profit of RMB0.7 million.

The Group reduced the loss attributable to shareholders by approximately 37% from RMB24.8 million in 2003 to RMB15.5 million in 2004 mainly due to cost savings.

R&D Capabilities

The Group through its subsidiary, Beijing TEDAX^2 Medical Engineering Co. Ltd. ("TEDAX^2 "), developed new models of medical equipment including sleeping monitors and multi-parameters monitoring equipments. During the year 2004, TEDAX^2 successfully obtained four trial production certificates for SRM-8100 respiratory equipment, TDM-1200 multi-parameters monitor, TDM-6000 sleeping status monitoring equipment without electrodes and TDM-7000 biological feedback monitoring equipment. Also in 2004, the production registration certificates of SRM-9600, SRM9601, SRM9602 sleeping status analysis monitor and TDAXX-2000 central monitoring system were obtained.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's milestone of the commercialization of R&D results was set up when the production registration certificate of IOL was issued by State Food and Drug Administration of the PRC on 30 June 2004. This laid out the concrete foundation of the further development of surface modified IOL, the technology of which surpasses its peers in biomedical engineering discipline and thus increases the competitive edge of the Group.

Sales Highlights

The major contribution to the Group's sales turnover was derived from the sales of Alpha's diabetic health food, in particular, its sugar-free products such as sugar-free biscuits and sugar-free almond juice which received a great demand from diabetic patients and the general public throughout the PRC. The total sales amount of Alpha's health food in 2004 arrived at approximately RMB28.6 million.

Another contribution to the Group's sales turnover was derived from the sales of compound fertilizer. Since the set up of STEDA, the total sales for the last three months of 2004 arrived at approximately RMB19.6 million. The sales of RMB19.6 million included one major sale of approximately RMB15.7 million of raw materials (which accounts for 80% of total revenue of STEDA) and RMB3.9 million of finished products.

Another fast growing sector in respect of the Group's total sales turnover was the Group's fungi health products. The Group established a marketing centre in Beijing, designed a new package of Yisheng products and changed the sales strategy for such products. To accommodate its future growth, Yisheng will commit to research and develop other fungi series. At the same time, the Group will also make use of the established Yisheng sales network for the promotion and sale of other products such as skin care products and TEDA functional cotton.

Through the Group's subsidiary, TEDAX[2], the Group continued to sell a series of new models of sleeping status monitoring equipment and multi-parameters monitoring equipment etc. The total sales turnover generated from the sales of such equipment arrived at approximately RMB6.4 million in 2004.

Financial Status and Assets Structure

In 2004, the Company witnessed profitability through the sales of its "Alpha" and "TEDA" products in the PRC. The Group will continue to enhance its logistics management and lower the average sales cost for further profitability.

Operating loss of the Group decreased by approximately 37% to RMB15.5 million as compared with the same in 2003. Except for finance expense which increased due to the increase in bank loan, the general and administration expense (including research and development expense) decreased by approximately 31% as compared with the same in 2003, disregarding the provision for doubtful debts of the sales proceed derived from the sale of right to use the Group's proprietary technology. This showed that the Group was successful in implementing the cost control measures to minimize the operating expense. The Group will continue to implement stringent cost control measures and adopt the most cost-effective methods for daily operations.

Future Outlook

It is the Group's long term aim of launching medical equipment and materials under the "TEDA" brand name. Together with the steady sales of "Alpha", all of the above brought forth a steady revenue stream for the Group.

In summary, the Group has arrived at its business turnaround point and through the mutual efforts of its management, the performance of the Group has improved to a bigger extent. This can be evidenced by the fact that the net loss attributable to shareholders for the year ended 31 December 2004 was decreased by 37% as compared with the same of 2003.

Major Investment

The Company will contribute cash of RMB9,180,000 for the set up of Shandong TEDA of which the Company holds 51% equity interest. Until the end of 2004, the Company has contributed cash of approximately RMB1,377,000, which represents 15% of the registered capital that needs to be contributed. The core business of Shandong TEDA is engaged in the research & development, production and sale of biological fertilizer, combined fertilizer, mixed fertilizer and plant fertilizer including the application of related technology.

Segmental information

The Group principally operates in three business segments: diabetic health products, other medical and health products and fertilizer products.

The results of the Group segregated by segments during the year ended 31 December 2004 and the year ended 31 December 2003 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 mainly by internally generated cash and banking facilities.

As at 31st December, 2004, the Group's consolidated shareholders' funds, current assets and net current assets were about RMB30.5 million (2003: RMB46.1 million), RMB91.5 million (2003: RMB75.7 million) and RMB2.5 million (2003: RMB21.2 million) respectively. The Group's current assets as at 31st December, 2004 comprised mainly cash and bank balances of RMB6.0 million (31st December, 2003: RMB12.9 million), pledged bank deposit of RMB25 million (31st December, 2003: RMB25 million), trade receivable of RMB27.8 million (31st December, 2003: RMB9.2 million) and inventories of RMB18.0 million (31st December, 2003: RMB15.4 million).

As at 31st December, 2004, the total bank borrowings for the Group amounted to RMB58.8 million (31st December, 2003: RMB36.7 million). The bank borrowings are denominated in Renminbi and provided by various licensed banks in the PRC with fixed interest rates within the range from 5.3% to 7.3% (31st December, 2003: 5% to 6.9%) per annum. The major portion of the bank borrowings in the total sum of RMB22,000,000 will mature on 22nd June, 2005.

As at 31st December, 2004, the Group's gearing ratio, defined as the ratio between total bank borrowings and total assets, was 0.48 (31st December, 2003: 0.34). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.03 (31st December, 2003: 1.39).

MANAGEMENT DISCUSSION AND ANALYSIS

Charges on the Group's assets and contingent liabilities

As at 31st December, 2004, time deposit of HK$23,400,000 was pledged as security for granting of loans of RMB22,000,000 to the Company by a PRC licensed bank.

As at 31st December, 2004, the Company had contingent liabilities amounting to RMB3.8 million in connection with the provision of guarantee as security for bank loans granted to it subsidiaries (31st December, 2003: RMB4.7 million).

Material acquisition and disposals

In the second quarter of 2004, the Company and Tianjin Wan Tai Bio-Development Company Limited ("Wan Tai") acquired the remaining 40% of the equity share capital of TEDAX[2] from the minority shareholders and as a result, the Group's effective control of TEDAX[2] was increased to 99.7% of its registered capital (2003: no major acquisition/ disposal). Except as stated in the statement of business objectives in the section headed "Business objectives" of the prospectus of the Company dated 10th June, 2002, there is no plan for major investment or acquisition of capital assets as at 31st December, 2004.

Employees and remuneration policies

As at 31st December, 2004, the Group had 377 employees (2003: 370 employees). Remuneration of the Group's employees was determined in accordance with government policies and by reference to market terms and the individual employee's performance, qualifications and experience. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme, medical scheme, unemployment insurance scheme and housing fund. For the year ended 31st December, 2004, the staff costs of the Group were approximately RMB12.7 million (2003: RMB14.5 million). The decrease in staff costs was mainly due to decrease in fringe benefits of the staff.

Exposure to foreign currency risk

The Group has no foreign currency risk since all the sales of the Group were domestic sales in the PRC denominated in Renminbi and all the payables to suppliers were also denominated in Renminbi.

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 utilised 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 10th June, 2002 and the half-yearly report 2004 of the Company dated 10th August, 2004. In the meantime, any surplus cash is placed as time deposit with licensed banks in the PRC.

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

A comparison of the business objectives as stated in the Company's prospectus dated 10 June 2002 with the Group's actual business progress for the twelve months ended 31 December 2004 is set out below:

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2004
R&D of new medical and health products:	
(a) Clinical catheters	
• Trial production permit obtained	Trial production permit not yet issued by the State Foods and Drugs Administration ("SFDA")
• Continued R&D of silicone rubber catheters and silicon rubber medical catheters	Continued research & development of silicone rubber catheters and silicon rubber medical catheters
(b) Dialysis equipment	
• Research and development of resin for the absorption of organic phosphorous and the absorption of high lipemia	Continued research and development of resin for the absorption of organic phosphorous and the absorption of high lipemia
• Research and development of absorption material for Bilirubin and absorption material for treating liver failure	Continued research and development of absorption material for Bilirubin and absorption material for treating liver failure
• Production commenced	Since production permit has not been obtained, production of dialysis equipment has not yet commenced
(c) Surface modified intraocular lens	
• Commence research and development on injectable gel lenses	Commenced research and development of injectable gel lenses
• Continue research and development on surface modification engineering	Continued research and development on surface modification engineering
• Commence research and development of soft artificial lenses	Continued research and development of soft artificial lenses

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2004
(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
• Production commenced for tissue adhesion prevention sodium hyaluronate	Due to the reason set out above, the production registration certificate has not been obtained and therefore production has not yet commenced
• Commence R&D of sodium hyaluronate eye drops	Research and development commenced relating to sodium hyaluronate eye drops
• Commence production for sodium hyaluronate relating to the application to fluids for medical uses	Since the production registration certificate relating to the application of sodium hyaluronate to fluids for medical uses has not yet obtained, production has not yet started
(e) Breast implants	
• Commence production of aquagel breast implant	The project of aquagel breast implant 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 genetic treatment of liver disease	Continued research on genetic treatment of liver disease
• Commence research on human liver cell growth reactor	Continued research on human liver cell growth reactor

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2004
(g) Medical monitoring systems	
• Commence R&D of respiratory monitors, and monitors enabling remote patient monitoring through internet-based networks	Research and development was completed and trial production certificate of SRM-8100 respiratory monitor was obtained in June 2004. Also in July 2004, the production registration certificate of TDAXX-2000 central monitoring system was obtained
(h) Biological organic vanadium for diabetic patients	
• Expect to receive approval for the production of biological organic vanadium	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
• Commence production of biological organic vanadium	Due to the reason that the research and development of biological organic vanadium was not completed, production had not yet commenced
• Commence advertising and marketing for biological organic vanadium products	Since the production of biological organic vanadium was not commenced, the advertising and marketing for such products had been postponed
• Further research for more new products to be derived or produced from biological organic vanadium	Continued identification for new products which may be derived from biological organic vanadium based on existing research activities
(i) 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 joint venture namely "Tianjin Yisheng Bioengineering Co., Ltd." was set up already for the production and sales of such products

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2004
Develop strategic alliances	
• Active participation by the Group's professional personnel in seminars and conferences of related industries	In April 2004, the Group participated in the National Spring Exhibition of medical equipment in Wuhan. Also TEDA Xinxing 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 R&D facility	Continued to enhance existing research and development facility of the Group
Expansion of distribution network	
• Establish approximately a further 20 treatment centres	Continued negotiation with various hospitals in PRC for the cooperation in setting up treatment centres
• Progressively build up distribution network of medical and health products using technology in the Biomedical Engineering discipline (other than diabetic health products)	TEDA Xinxing had set up wholly owned sales offices in Zhengzhou, Chengdu, Shijiazhong, Shenyang and Beijing for the sale of medical equipment in 2004. Simultaneously, the Group contracted with 鄭州愛邦眼科器械有限公司 for the sale of IOL in the southern part of China by utilizing the distribution network already built up by 鄭州愛邦眼科器械有限公司
• 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 23 marketing and sales employees in Wan Tai and the Company as at 31st December, 2004 and totally 106 sales staff in the Group as at 31st December, 2004

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2004
• 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 other places will be opened after the evaluation of business opportunities
• Continue television advertising campaign for the Group's diabetic health products in a number of cities in the PRC	Television advertisements for diabetic health products were launched in the cities of Shanghai and Tianjin
• Commence marketing and distribution of the Group's products including Curcumin	Since the approval certificate for the production of Curcumin has not been issued by SFDA, the marketing and distribution for such products had not commenced
• Open liaison office(s) in overseas market	Market study on the opening of liaison office(s) overseas continued
Accelerate the commercialisation of products developed	
• Commence commercial production, marketing and promotion of Curcumin	Since the production licence for Curcumin was not obtained, production, marketing and promotion of Curcumin had not yet commenced
• Continue production of sodium hyaluronate through the Proposed Sodium Hyaluronate Joint Venture	Since the Proposed Sodium Hyaluronate Joint Venture was not established, the production of sodium hyaluronate did not commence. The research and development of medical sodium hyaluronate was carried out by the Company in cooperation with those strategic alliances which are renowned PRC universities and research centres and institutes
• Expand production of blood purification equipment through the Proposed Blood Purification Equipment Joint Venture	The original plan of cooperation with Ningbo Development Zone Blood Purification Equipment Company for the set up of Proposed Blood Purification Equipment Joint Venture was stopped

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

Business objectives as stated in the prospectus dated 10 June 2002	Actual business progress up to 31 December 2004
• Expansion of manufacturing of monitoring equipment through the Proposed Xinxing TEDA Joint Venture	After the further acquisition of the remaining 40% of the registered capital of TEDA Xinxing from the minority shareholders in the 2nd quarter of 2004, the Company increased its financial support to TEDA Xinxing for the expansion of its manufacturing capacity. Also the production place of TEDA Xinxing was moved to Beijing Economic Development Zone to facilitate the increase in production capacity
• Expand production of diabetic treatment equipment through the Proposed BME Joint Venture	Due to unexpected difficulties encountered during the negotiation with Mr. Shen Cun Zheng, the plan of the formation of the Proposed BME Joint Venture was abandoned. As a result, the plan of production of diabetic treatment equipment was stopped
• Expand production of catheters through the Proposed Plastic Joint Venture	Since the set up of the Proposed Plastic Joint Venture was stopped, 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 2004, 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 2004**
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 commericialisations of products	35.2	11.9
Establishment of treatment centres	5.0	0.0
Working Capital	10.0	24.7
Total	74.5	49.6

As disclosed in the half-yearly report 2004, 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 in the PRC for the establishment of treatment centres in local big cities was in progress and the Group expects that the schemes for such establishment could be finalized in 2005.

In September 2004, the Company contributed RMB1,377,000 for the set up of STEDA and this represents 15% of the share of equity capital owned by the Company. The source of fund was from internal generated revenue.

During the year 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

SUPERVISORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Mr. Wang Shuxin, aged 40, 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 Tianjin TEDA International Incubator (天津泰達國際創業中心) ("TTII") in April 1996 and has been the legal representative of Tianjin TEDA Institute of Biomaterials and Medical Engineering (天津開發區泰達生物材料與醫學工程研究所) ("IBME") since January 1998. He was appointed as Chairman of the Board of Directors of the Company in September 2000, Mr. Wang graduated from Tianjin University (天津大學) in 1988 with a master's degree in Organic Chemical Engineering (有機化工專業). In February 1999, he obtained a post-graduate qualification in accounting from Tianjin Financial Institute of Finance and Economic (天津財經學院). In 1997, Mr. Wang participated in the commercialization 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 (十大傑出青年) in 1998. In 1999, Mr. Wang led the establishment of an enterprise postdoctoral research workstation in Tianjin Economic-Technological Development Area (天津經濟技術開發區). 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 48, is the director and general manager of Tianjin Alpha Health Care Products Co., Ltd. (天津阿爾發保健品有限公司) ("Alpha"). Mr. Xie graduated from Chinese Traditional Medicine Department of Heilongjiang Institute of Commerce (黑龍江商學院中藥系) in July 1982 with a bachelor degree. Mr. Xie was appointed as the chief engineer of the Chinese medicine factory (中藥制藥廠) under the Tianjin Chinese Medicine Group (天津中藥集團) and was the supervisor of Hangzhou Wanaha Group Research and Development Centre (杭州娃哈哈集團科研開發中心). He was awarded the Best Scholar of New Products (新品狀元) and became leader of the Initiation of Technology Development (新品開發帶頭人) in 1992 and was further recognized 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 of the Company in September 2000.

Ms. Zheng Dan, aged 40, is the director and general manager of Beijing TEDAX2 Medical Engineering Co. Ltd.. 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 (天津財經學院會計專業) with a bachelor degree in economics in 1986. Ms. Zheng became an executive director of the Company in September 2000.

Non-executive Directors

Mr. Feng Enqing, aged 45, graduated from Tianjin Industrial University (天津工業大學) in 1982 with a degree in textile chemical engineering (紡織化學工程) and joined TTII as the project manager in 1996. He was previously the supervisor and chief engineer of Tianjin Xinggang Textile Manufacture (天津新港紡織廠). Mr. Feng is a director of Alpha and the chief engineer of TTII. He joined the Company as a non-executive director in September 2000.

Directors *(Continued)*

Non-executive Directors *(Continued)*

Mr. Xie Guangbei, aged 50, 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 (天津證券投資諮詢有限公司). He was an engineer of the Business Department of China Shizheng Huabei College of Design (中國市政華北設計院計畫經營處), director and deputy general manager and senior engineer of Tianjin Eastern International Engineering Consultancy (天津東方國際工程諮詢). He joined the Company as an independent supervisor of the Company in November 2000 and was appointed as a non-executive director in November 2003.

Mr. Liu Zhenyu, aged 33, graduated from the Bachelor of Laws programme of 天津師範大學 (Tianjin Normal University) in 1995. He then undertook postgraduate study in Economic and Finance at Nankai University (南開大學) and was awarded the Master of Economics in 2001. From November 2000 to June 2002, he worked as project manager of the Investment and Development Department of Tianjin TEDA Group Company Limited (天津泰達集團有限公司). Currently, he is the Deputy Manager of Asset Management Department of Tianjin TEDA Investment (Holding) Company Limited (天津泰達投資控股有限公司). Mr. Liu joined the Company as a non-executive director in November 2003.

Independent Non-executive Directors

Professor Xiao Zhouji, aged 71, 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 Shenzhou Konka Co., Ltd. (深圳康佳股份有限公司).

Professor Xian Guoming, aged 50, 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 Xian also acts as the deputy secretary of China Academy of Global Economics, and as an independent director of Yifangda Funds Management Company. He specializes in research on international investments by multi-national corporations. Professor Xian is also the independent director of three listed companies, namely Nankai Gede Co., Ltd., Sichuan Dong Tai (Holding) Co Ltd and Tong Ren Hua Su Co Ltd. He was appointed as an independent non-executive director of the Company in August 2001.

Madam Zhao Xiuying, aged 37, graduated from food engineering faculty (食品工程專業) of Tianjin Institute of Light Industry (天津輕工學院) in July 1987. She is a registered Certified Public Accountant ("CPA") in the PRC holding the Certificate of CPA since May 2002. During the period from 1991 to 1999, Madam Zhao was the principal accountant with Chinese Light Industry Goods (North China) Company and was mainly responsible for cost accounting and auditing. From June 2000 onwards, Madam Zhao works with Tianjin Star Point Certified Public Accountants (天津起點會計師事務所) as the project manager and has participated in various auditing jobs involving foreign investment enterprises, joint stock companies and listed companies. Madam Zhao was appointed as an independent non-executive director of the Company in September 2004.

DIRECTORS

SUPERVISORS AND SENIOR MANAGEMENT

Supervisors

Mr. Hao Zhihui, aged 43, is the chairman of supervisors 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 (醫藥產業部部長) and is responsible for the supervision of TTII's Medical Industry Department (醫藥產業部). 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. (天津四面體化學有限公司). He joined the Company as a supervisor in September 2000.

Mr. Yuan Wei, aged 53, graduated from the Tianjin School of Chinese Traditional Medicine (天津中藥學校) in 1975. He previously held the position of head of quality control at the Tianjin Chinese Medicine Plan (中藥製藥廠) before joining Alpha in August 1994. He is currently the administrative officer (辦公室主任) of Alpha. Mr. Yuan was appointed as a supervisor of the Company in September 2000.

Independent Supervisors

Mr. Chang Zheng, aged 36, graduated from the Accounting Department of Tianjin Institute of Finance and Economic (天津市財經學院會計學系) in 1991 with a bachelor's degree in Economics. He was previously a financial manager at Sino-American Tianjin Yousheng Industry Co., Ltd. (中美合資天津友升實業有限公司). He joined TTII in June 1999, and is the head of the Finance Department of TTII. Mr. Chang was appointed as a supervisor of the Company in September 2000 and an independent supervisor of the Company in November 2003.

Mr. Zhu Gang, aged 40, 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. (天津創新投資管理公司) and was employed as the general manager of Tianjin Songde Certified Public Accountant (天津松德會計師事務所) in 1997 and has considerable experience in accounting and management finance. Mr. Zhu was appointed as an independent supervisor of the Company in September 2000.

Senior Management

Qualified Accountant and Company Secretary

Mr. Yip Pak Shing, Edmund, aged 49, 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 financial controller of joint venture companies established by multinational corporations in the PRC before joining the Group in October 2000.

REPORT OF THE DIRECTORS

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 2004.

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 14 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 Share Capital

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 24 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 39 of this annual report.

The Directors do not recommend the payment of any dividend during the year.

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 page 44 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 11 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 PRC.

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.

REPORT OF THE DIRECTORS

Directors and Supervisors

The Directors during the year were:

Executive Directors:	
Mr. Wang Shuxin *(王書新)*	(re-elected on 1 January 2005)
Mr. Xie Kehua *(謝克華)*	(re-elected on 1 January 2005)
Professor Gu Hanqing *(顧漢卿教授)*	(retired on 31 December 2004)
Ms. Zhang Dan *(鄭丹)*	(re-elected on 1 January 2005)
Non-executive Directors:	
Mr. Feng Enqing *(馮恩慶)*	(re-elected on 1 January 2005)
Mr. Liu Zhunyu *(劉振宇)*	(re-elected on 1 January 2005)
Mr. Xie Guangbei *(謝光北)*	(re-elected on 1 January 2005)
Independent Non-executive Directors:	
Professor Xan Guoming *(冼國明教授)*	(re-elected on 1 January 2005)
Professor Xiao Zhuoji *(蕭灼基教授)*	
Ms. Zhao Xiuying *(趙秀英)*	(re-elected on 1 January 2005)
Supervisors:	
Mr. Hao Zhihui *(郝志輝)*	(re-elected on 1 January 2005)
Mr. Yuan Wei *(袁偉)*	(re-elected on 1 January 2005)
Independent Supervisors:	
Mr. Chang Zheng *(常崢)*	(re-elected on 1 January 2005)
Mr. Zhu Gang *(祝剛)*	(re-elected on 1 January 2005)

After the appointment of Ms. Zhao Xiuying as an independent non-executive director of the Company, the number of independent non-executive directors of the Company increased to three.

After the expiry of the service contract of Professor Gu Hanqing on 31 December 2004, the number of executive directors of the Company reduced to three.

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

Directors' and Supervisors' Service Contracts

Each of the directors and the supervisors of the Company has entered into a service contract with the Company. Except for Professor Xiao Zhuoji, all the service contracts of the directors and the supervisors of the Company were expired on 31 December 2004.

Except for Professor Gu Hanqing who retired on 31 December 2004 and Professor Xiao Zhuoji, all the existing directors and supervisors of the Company were re-elected for a term of three years commencing from 1 January 2005.

All the re-elected directors and supervisors of the Company entered into service contracts with the Company after the ordinary resolutions for their re-election being passed at the extraordinary general meeting of the Company held on 21 December 2004. The remunerations of the re-elected directors and supervisors for the year ending 31 December 2005 have not been fixed and that the board of directors of the Company was being authorized to fix the remunerations of the re-elected directors and supervisors on the basis of prevailing market rate.

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

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

The basic annual salaries of the executive directors of the Company for the year ended 31 December 2004 were as follows:

	RMB
Mr. Wang Shuxin	634,342
Ms. Zheng Dan	348,184
Mr. Xie Kehua	224,708
Professor Gu Hanqing (retired on 31 December 2004)	137,000

The basic annual salaries of the non-executive directors of the Company for the year ended 31 December 2004 were as follows:

	RMB
Mr. Feng Enqing	30,000
Mr. Liu Zhunyu	30,000
Mr. Xie Guangbei	30,000

The basic annual salaries of the independent non-executive directors of the Company for the year ended 31 December 2004 were as follows:

	RMB
Professor Xiao Zhuoji	100,000
Professor Xan Guoming	30,000
Ms. Zhao Xiuying	30,000

The basic annual salaries of the supervisors and independent supervisors of the Company for the year ended 31 December 2004 were as follows:

	RMB
Mr. Hao Zhihui	146,568
Mr. Yuan Wei	20,000
Mr. Chang Zheng	20,000
Mr. Zhu Gang	20,000

(i) each of the directors and the supervisors of the Company was entitled to out-of-pocket expenses reasonably incurred during his/her term of office; and

(ii) the directors and the supervisors of the Company were not entitled to any bonus.

REPORT OF THE DIRECTORS

Directors' and Supervisors' Interests in Contracts

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which any of the directors, the supervisors of the Company 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.

Confirmation of Independence of Independent Non-executive Directors

The Company has received from each of Professor Xiao Zhuoji, Professor Xian Guoming and Ms. Zhao Xiuying an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company still considers the independent non-executive Directors to be independent.

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

Brief biographical details of the directors, the supervisors, the company secretary and the qualified accountant of the Company are set out on pages 24 to 26 of this annual report.

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

As at 31 December 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 position 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						
Gu Hanqing	14,000,000	–	–	–	14,000,000	3.5%
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 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 was the Company or its subsidiaries a party to any arrangement to enable the directors and the supervisors of the Company or their respective spouses 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 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 ("TTII")	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 registered capital of which is owned by Mr. Wu and he is deemed to have interest in such 10,000,000 shares pursuant to the provisions of the SFO.

Save as disclosed above, as at 31 December 2004, the directors of the Company 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 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 December 2004.

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 was authorized to place not more than 35% or less than 30% of the entire issued share capital 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 the proposed placing of new H shares of the Company and the proposed specific mandate ("Specific Mandate") for the issue of new H shares of the Company. Under the Circular, notice were given to the shareholders 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.

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 new H Shares for sale. All the proceeds from the placing of such 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.

At the EGM held on 18 June 2004, the shareholders of the Company passed the resolution to change the time for completion of the Placing to within six months after 18 June 2004.

On 29 October 2004, the Company entered into a Supplemental Agreement with SHK for the granting of the new placing mandate to SHK subject to the following terms:

(i) The removal of the requirement for minimum gross proceeds of HK$40,000,000 to be raised under the Placing;

(ii) The removal of the requirement for the new H shares under the placing to be not less than 30% of the entire issued capital of the Company; and

(iii) The lowering of the placing price range from HK$0.186 and HK$0.233 be changed to HK$0.161 and HK$0.186.

The reason for the above changes was to provide for greater flexibility for the Placing to proceed in light of the then market condition. The remaining terms and conditions of the placing mandate signed between the Company and SHK dated 3 December 2003 remained unchanged.

REPORT
OF THE DIRECTORS

Placing Arrangement *(Continued)*

At the EGM held on 21 December 2004, the shareholders of the Company passed the resolutions for granting of the new placing mandate to SHK as described under the above terms (i), (ii) and (iii) and the effective period of the further specific mandate will be for a period of six months from 21 December 2004.

Once the Underwriting Agreement with SHK is finalized, the amount of the placing price will be set out in the relevant Underwriting Agreement and announced in accordance with the GEM Listing Rules.

Management Contracts

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

Competing Interests

None of the directors, the supervisors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had an interest which competes or may compete with the businesses of the Company during the year.

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:

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	46%
– five largest suppliers combined	62%
Sales	
– the largest customer	27%
– five largest customers combined	35%

Connected Transactions

Significant related party transactions entered by the Group during the year ended 31 December 2004, which do not constitute connected transactions under the GEM Listing Rules, are disclosed in Note 27 to the accompanying accounts.

Set Up of New Subsidiary

On 18 September 2004, Shandong TEDA Bio-engineering Co., Ltd. was set up of which the Company owned 51% of the registered capital. The registered capital of this company is RMB18,000,000 and the Company made an initial cash contribution of RMB1,377,000 in October 2004.

Board Practices and Procedures

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 and 5.35 to 5.45 (which were repealed on 1 January 2005) 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 2004, none of the directors or the supervisors or employees of the Company or other participants of the Scheme was granted with options to subscribe for the H Shares of the Company.

REPORT OF THE DIRECTORS

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 Institute of Certified Public Accountants (previously known as "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 if internal controls and risk evaluation. The Committee comprises three independent Directors, namely Professor Xiao Zhuoji and Professor Xian Guoming, and Madam Zhao Xiuying. Five meetings were held during the current financial year, including the meeting held for the review of the financial accounts for the year ended 31 December 2004.

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, 15 April 2005

REPORT OF THE SUPERVISORY COMMITTEE

Dear shareholders,

During the current reporting year of 2004, in accordance with the requirements of the Company Law of the People's Republic of China and relevant regulations and the Articles of Association of the Company, the Supervisory Committee of the Company performed its duties under the Articles of Association of the Company and carried out various work on a bona fide and diligent basis so as to protect the interests of all shareholders.

I. Meeting of the Supervisory Committee and Resolutions Passed at the Meeting

On 15 April 2005, the second meeting of the Second Supervisory Committee of the Company was convened at the conference room of the Company, at which the followings were considered and approved:

1. the consolidated financial statements of the Group for the year 2004 audited by PricewaterhouseCoopers.

2. the use of proceeds by the Group.

II. Performance of the Supervisory Committee during the Reporting Year

1. In 2004, despite unfavourable factors such as rising prices of major raw materials, the management of the Company was still able to maintain objectivity to maximise profits for the Company by leveraging on its own edges and adopting decisive measures and policies, generating relatively satisfactory operating results for the Company. The Supervisory Committee has further strengthened its efforts on the supervision of management and participated in the decision making process of the management of the Company by attending the meetings of the Board.

2. The Supervisory Committee regularly reviews the Company's financial statements and accounts to ensure the Company's accurate, detailed and timely preparation of financial statements and accounts. To the best knowledge of the Supervisory Committee to date, there are no inappropriate disclosures in those financial statements and accounts.

3. The Supervisory Committee supervises the performance of all directors and other executives. The Supervisory Committee believes that all directors and other executives have performed their obligations on a bona fide and diligent basis, and for the best interests of the Company. To the best knowledge of the Supervisory Committee to date, no directors or other executives had violated any regulations of the Company Law of the People's Republic of China, the Articles of Associations of the Company and other laws and regulations of the PRC during the reporting period.

4. the auditors' report issued by PricewaterhouseCoopers truly, fairly and accurately reflects the Group's financial position and operating results.

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

15 April 2005

AUDITORS' REPORT

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 39 to 77 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 Institute of Certified Public 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 2004 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, 15 April 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB	2003 RMB
Turnover	3(a)	**58,645,974**	47,304,980
Cost of sales		**(37,685,256)**	(24,892,161)
Gross profit		**20,960,718**	22,412,819
Other revenue	3(a)	**11,209,349**	1,296,154
Distribution and selling expenses		**(17,769,213)**	(17,238,078)
Administrative expenses	3(a)(ii)	**(26,463,398)**	(27,108,257)
Research and development expenses, net of government grants of nil (2003: RMB1,150,000)		**(3,616,494)**	(3,354,001)
Amortisation of goodwill on consolidation	13	**(303,419)**	(403,419)
Operating loss	4	**(15,982,457)**	(24,394,782)
Finance costs	5	**(3,013,371)**	(894,214)
Loss before taxation		**(18,995,828)**	(25,288,996)
Taxation	6(a)	**(82,496)**	–
Loss after taxation		**(19,078,324)**	(25,288,996)
Minority interests	25(c)	**3,532,187**	447,217
Loss attributable to shareholders	7	**(15,546,137)**	(24,841,779)
Loss per share	9	**(3.89) cents**	(6.21) cents

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 RMB	2003 RMB
Non-current assets			
Property, plant and equipment	11	**17,394,348**	15,574,287
Proprietary technologies	12	**3,739,956**	3,153,436
Goodwill on consolidation	13	**3,367,001**	4,665,277
Trade receivable	16(c)	**6,195,126**	6,823,831
Other receivable	17(a)	**1,431,488**	2,131,430
		32,127,919	32,348,261
Current assets			
Inventories	15	**18,042,311**	15,392,467
Trade receivables	16	**27,812,508**	9,223,018
Prepayments and other receivables	17(b)	**12,875,005**	9,517,557
Amounts due from related parties	18	**1,759,306**	3,561,398
Restricted bank deposit	20	**25,043,950**	25,043,950
Cash and bank balances		**5,994,744**	12,912,756
		91,527,824	75,651,146
Current liabilities			
Trade payables	21	**13,803,980**	2,200,871
Other payables and accruals		**13,070,678**	12,791,083
Government grants received in advance		**1,402,008**	1,402,008
Amounts due to related parties	18	**1,637,234**	1,216,296
Short-term bank borrowings	22	**58,800,000**	36,700,000
Current portion of finance lease payable	23	**346,816**	168,815
		89,060,716	54,479,073
Net current assets		**2,467,108**	21,172,073
Total assets less current liabilities		**34,595,027**	53,520,334

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 RMB	2003 RMB
Financed by:			
Share capital	24	**40,000,000**	40,000,000
Share premium		**62,031,951**	62,031,951
Capital reserve		**2,541,404**	2,541,404
Accumulated losses		**(74,030,217)**	(58,484,080)
Shareholders' funds		**30,543,138**	46,089,275
Minority interests	25(c)	**2,761,011**	5,962,180
Finance lease payable	23	**1,290,878**	1,468,879
		34,595,027	53,520,334

Wang Shuxin
Director

Xie Kehua
Director

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 RMB	2003 RMB
Non-current assets			
Property, plant and equipment	11	**8,747,303**	7,419,333
Interests in subsidiaries	14	**55,176,549**	40,432,837
Other receivable	17(a)	**1,431,488**	2,131,430
		65,355,340	49,983,600
Current assets			
Inventories	15	**3,738,674**	2,484,400
Trade receivables	16	**294,852**	51,482
Prepayments and other receivables	17(b)	**3,921,074**	5,896,884
Amounts due from related parties	18	**2,055,928**	3,253,484
Restricted bank deposit	20	**25,043,950**	25,043,950
Cash and bank balances		**1,667,318**	6,976,081
		36,721,796	43,706,281
Current liabilities			
Trade payables	21	**141,042**	209,027
Other payables and accruals		**6,099,822**	6,153,288
Amounts due to related parties	18	**1,487,234**	1,010,540
Short-term bank borrowings	22	**54,000,000**	32,000,000
Current portion of finance lease payable	23	**346,816**	168,815
		62,074,914	39,541,670
Net current (liabilities)/assets		**(25,353,118)**	4,164,611
Total assets less current liabilities		**40,002,222**	54,148,211

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	**2004**	2003
		RMB	RMB
Financed by:			
Share capital	24	**40,000,000**	40,000,000
Share premium		**62,031,951**	62,031,951
Capital reserve		**(2,312,483)**	(2,312,483)
Accumulated losses		**(61,008,124)**	(47,040,136)
Shareholders' funds		**38,711,344**	52,679,332
Finance lease payable	23	**1,290,878**	1,468,879
		40,002,222	54,148,211

Wang Shuxin
Director

Xie Kehua
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

CONSOLIDATED

	Share capital RMB	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Total RMB
Balance as at 1 January 2003	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
Loss attributable to shareholders	–	–	–	(15,546,137)	(15,546,137)
Balance as at 31 December 2004	**40,000,000**	**62,031,951**	**2,541,404**	**(74,030,217)**	**30,543,138**

COMPANY

	Share capital RMB	Share premium RMB	Capital reserve RMB	Accumulated losses RMB	Total RMB
Balance as at 1 January 2003	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
Loss attributable to shareholders	–	–	–	(13,967,988)	(13,967,988)
Balance as at 31 December 2004	**40,000,000**	**62,031,951**	**(2,312,483)**	**(61,008,124)**	**38,711,344**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 RMB	2003 RMB
Cash flows from operating activities			
Net cash used in operations	25(a)	**(22,503,301)**	(35,348,938)
Interest paid		**(3,003,724)**	(1,956,214)
Interest subsidy from the government	5	**–**	1,062,000
Interest received		**771,606**	589,405
Net cash used in operating activities		**(24,735,419)**	(35,653,747)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(5,223,055)**	(1,916,305)
Purchases of proprietary technologies		**(1,216,660)**	–
Sales of property, plant and equipment		**840,894**	52,500
Acquisition of additional equity interest in a subsidiary	25(b)	**–**	(100,000)
Net cash used in investing activities		**(5,598,821)**	(1,963,805)
Cash flows from financing activities	25(c)		
Additions of short-term bank borrowings		**54,800,000**	20,900,000
Repayments of short-term bank borrowings		**(32,700,000)**	(11,800,000)
Capital injection by minority shareholders		**1,325,875**	1,500,000
Capital element of finance lease payment		**–**	(489,229)
Net cash from financing activities		**23,425,875**	10,110,771
Net decrease in cash and bank balances		**(6,908,365)**	(27,506,781)
Cash and bank balances at 1 January		**12,912,756**	40,527,637
Effect of foreign exchange rate changes		**(9,647)**	(108,100)
Cash and bank balances at 31 December		**5,994,744**	12,912,756

NOTES
TO THE ACCOUNTS

1. Group Information and Principal Activities

Tianjin TEDA Biomedical Engineering Company Limited (the "Company") was established on 8 September 2000 in the People's Republic of China ("PRC") as a joint stock company with limited liability. On 18 June 2002, the Company's shares were listed on the Hong Kong Growth Enterprise Market (the "GEM"). Consequently on 24 March 2003, the Company's legal status became that of a Sino-foreign joint stock company with limited liability. 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 14 below.

2. Principal accounting policies

These accounts have been prepared under the historical cost convention. The principal accounting policies adopted by the Group, which conform with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") are set out below:

(a) Basis of preparation

The accounts have been prepared on a going concern basis, assuming that the Group will continue to operate as a going concern, notwithstanding the fact that the Group suffered a net loss of RMB15,546,137 in the current year resulting in accumulated loss of RMB74,030,217 as at 31 December 2004. The validity of the Group's ability to continue as a going concern depends on the success of the Group's future operations and the ability of the Group to renew or replace the banking facilities as they fall due. The Group's principal banker has confirmed its intention to extend and commit banking facility of up to RMB100 million to the Company. Drawdowns from this facility will be subject to the bank's normal approval procedures. As at 31 December 2004, about RMB56 million of these facilities still remain unused. Subsequent to year end, the Company received RMB25 million of new loan against this facility on 31 March 2005. Consequently, the Directors have prepared the 2004 financial statements on the going concern basis.

(b) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the results its operations and financial position.

(c) 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.

2. **Principal accounting policies** *(continued)*

(c) Consolidation *(continued)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective dates of acquisitions 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.

(d) Intangibles

(i) Goodwill/(Negative 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 acquisition is recognised as an intangible asset and is stated at cost less accumulated amortisation and any impairment losses. Amortisation is based on the straight-line method over the estimated useful life of 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

Negative goodwill on acquisition is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

2. Principal accounting policies *(continued)*

(d) Intangibles *(continued)*

(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 in the period in which they are 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.

(e) Property, plant and equipment

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

(ii) Depreciation

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, using following annual rates:

Buildings	5% – 14%
Plant and machinery	7% – 33%
Motor vehicles	20%
Furniture, fixtures and equipment	20%

Renovations and improvements are capitalised and depreciated over their expected useful lives.

2. Principal accounting policies *(continued)*

(e) Property, plant and equipment *(continued)*

(iii) 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 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.

(f) Government subsidy

Government subsidy is recognised when received and when there is a reasonable assurance that the Group will comply with the conditions attached with it, if any.

In relevant instances, grants relating to income may be deferred and recognised in the profit and loss account over the period necessary to match them with the costs they are intended to compensate.

(g) Assets under leases

(i) Finance leases

Leases that substantially transfer all the risks and rewards of ownership of assets to the Group 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 non-current 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.

2. Principal accounting policies *(continued)*

(h) Inventories

Inventories 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 overheads. 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.

(i) 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 provision.

(j) Translation of foreign currencies

The consolidated accounts are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

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.

(k) Employee benefits

(i) Employee leave entitlements

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 has 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 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 contributions to the defined contribution plans are expensed as incurred.

2. Principal accounting policies *(continued)*

(l) 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.

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.

(m) 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. 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.

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.

(n) 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 an 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.

Other revenue from sale of intangible assets is recognised on the transfer of risk and rewards of the title to the asset, and it is probable that the economic benefit associated with the transaction will flow to the Group.

2. Principal accounting policies *(continued)*

(n) Revenue recognition *(continued)*

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

(o) Borrowing costs

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

(p) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segmentation is the primary reporting format and geographical segmentation is 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.

3. Turnover, revenue and segment information

(a) Revenue recognised during the year is as follows:

	2004 RMB	2003 RMB
Sale of goods		
– Diabetic health products	**28,620,009**	25,720,000
– Other medical and health products	**10,424,640**	20,172,159
– Fertilizer products (Note (i))	**19,601,325**	–
	58,645,974	45,892,159
Service income		
– Other medical and health products	**–**	1,412,821
Total turnover	**58,645,974**	47,304,980
Other revenue		
– Proceed from sale of right to use Group's proprietary technology (Note (ii))	**7,752,813**	–
– Consultancy fee on distribution of certain of the Group's products (Note (iii))	**1,691,550**	–
– Bank interest income	**771,606**	589,405
– Others	**993,380**	706,749
	11,209,349	1,296,154
Total revenues	**69,855,323**	48,601,134

Notes:

(i) Revenue from sale of fertilizer products include one major sale of raw materials of about RMB15.7 million to Xinyang Jindi Compound Fertilizer Co., Ltd. ("Xinyang") (Note 16(b)).

(ii) On 2 December 2004, the Group sold the right to use certain of its proprietary technology restricted within the Southeast Asia region to Brilliant Rise Development Limited ("BRDL"). The related fee of approximately RMB7.8 million, net of business tax, has been recognised as other revenue. However, BRDL has defaulted on its promised repayment schedule and in light of the uncertainty of the recovery of the debt, full provision has been made and charged to administrative expenses.

(iii) During 2004, the Group allowed an enterprise to distribute certain of its products for two years ending 30 June 2006. In connection with this distribution, the Group provided certain consultancy services. The related fee of RMB1,691,550, net of business tax, for the six months to 31 December 2004 which was recognised as other revenue has been received during 2004.

(iv) In respect of transactions described in (i) to (iii) above, the Directors confirm that they have been transacted with independent unrelated third parties.

3. Turnover, revenue and segment information *(continued)*

(b) Primary reporting format – business segments

The Group's main business segments are analysed below. There is no sale or other transaction between the business segments.

(i) 2004 segment analysis:

	Diabetic health products RMB	Other medical and health products RMB	Distribution of Fertilizer products RMB	Total RMB
Segment revenue	**29,195,977**	**20,286,415**	**19,601,325**	**69,083,717**
Segment profit/(loss)	**526,215**	**(13,367,892)**	**(49,235)**	**(12,890,912)**
Unallocated income				**771,606**
Unallocated costs				**(3,863,151)**
Operating loss				**(15,982,457)**
Finance costs				**(3,013,371)**
Loss before taxation				**(18,995,828)**
Taxation				**(82,496)**
Loss after taxation				**(19,078,324)**
Minority interests				**3,532,187**
Loss attributable to shareholders				**(15,546,137)**
Segment assets	**22,194,819**	**76,716,961**	**20,019,639**	**118,931,419**
Unallocated assets				**1,724,194**
Total assets				**120,655,613**
Segment liabilities	**(7,079,798)**	**(15,933,287)**	**(8,699,813)**	**(31,712,898)**
Unallocated liabilities				**(55,638,566)**
Total liabilities				**(87,351,464)**
Amortisation of goodwill (Note 13)	**233,585**	**69,834**	**–**	**303,419**
Amortisation of proprietary technologies (Note 12)	**–**	**930,140**	**–**	**930,140**
Provision for doubtful debts (Note 4)	**65,260**	**7,897,180**	**–**	**7,962,440**
Capital expenditure (Note 11)	**1,000,662**	**3,764,085**	**458,308**	**5,223,055**
Depreciation (Note 4)	**1,201,726**	**1,316,348**	**13,960**	**2,532,034**
Inventory obsolescence and write-off (Note 4)	**1,167,101**	**–**	**–**	**1,167,101**
Loss on disposal of property, plant and equipment (Note 4)	**–**	**30,065**	**–**	**30,065**
Proprietary technology expenditure (Note 12)	**–**	**1,516,660**	**–**	**1,516,660**

3. Turnover, revenue and segment information *(continued)*

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

(ii) 2003 segment analysis:

	Diabetic health products RMB	Other medical and health products RMB	Total RMB
Segment revenue	26,193,389	21,818,340	48,011,729
Segment profit/(loss)	(1,777,604)	(19,400,181)	(21,177,785)
Unallocated income			589,405
Unallocated cost			(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)
Amortisation of goodwill (Note13)	233,585	169,834	403,419
Amortisation of proprietary technologies (Note 12)	–	880,000	880,000
Provision for doubtful debts (Note 4)	2,943,166	1,062,588	4,005,754
Capital expenditure	590,465	3,452,763	4,043,228
Depreciation (Note 4)	1,268,727	1,537,380	2,806,107
(Gain)/loss on disposal of property, plant and equipment (Note 4)	(4,299)	3,994	(305)
Inventory obsolescence and write-off (Note 4)	725,340	466,516	1,191,856

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:

	2004 RMB	2003 RMB
Crediting		
Exchange gain, net	**9,647**	94,094
Gain on disposal of property, plant and equipment, net	**–**	305
Charging		
Amortisation of goodwill (Note 13)	**303,419**	403,419
Amortisation of proprietary technologies (Note 12)	**930,140**	880,000
Auditors' remuneration	**1,102,677**	1,718,623
Provision for doubtful debts		
– Other receivables (Note 3(a)(ii))	**7,800,000**	–
– Trade receivables	**162,440**	4,005,754
Cost of inventories sold	**31,383,700**	21,839,474
Depreciation:		
Leased property, plant and equipment	**232,058**	101,029
Owned property, plant and equipment	**2,299,976**	2,705,078
Inventory obsolescence and write-off	**1,167,101**	1,191,856
Legal and professional consulting service fees	**996,734**	1,142,084
Loss on disposal of property, plant and equipment, net	**30,065**	–
Operating lease rentals - land and buildings	**1,440,052**	1,857,091
Pension costs	**801,989**	1,628,695
Staff costs other than pension costs (including emoluments of Directors and Supervisors)	**12,726,890**	14,487,255

5. Finance costs

	2004 RMB	2003 RMB
Interest expense on short-term bank borrowings	**3,013,371**	1,571,131
Interest subsidy from the government (Note (i))	**–**	(1,062,000)
	3,013,371	509,131
Trade receivable factoring charge	**–**	385,083
	3,013,371	894,214

Note (i):

In 2003, in accordance with Tianjin Binhai Development Zone's plan to encourage capital construction, the Company was granted a subsidy of RMB1,062,000 to reduce its interest expense.

6. Taxation

(a) Enterprise income tax ("EIT")

Company:

In 2003, the Company changed its tax status to that of a Foreign Investment Enterprise ("FIE"). In accordance with the relevant tax regulations, as a production FIE located in TEDA, the Company is eligible to enjoy the concessionary EIT of 15%. It is further entitled to exemption from EIT for two years commencing from the first profit-making year after offsetting prior year's losses, followed by a 50% reduction 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. The Company has not provided for any EIT since it has no taxable income for the year (2003: nil).

Subsidiaries:

Alpha, being a production FIE located in TEDA, is also eligible for all the benefits enjoyed by the Company as described above. Year 2004 is Alpha's third profit-making year, consequently EIT has been provided at 7.5% (2003: nil) of taxable income for the year.

Wan Tai and Yisheng, being limited companies incorporated in the PRC, are subject to the statutory 30% EIT and 3% local income tax. Both Wantai and Yisheng have not provided for any EIT since neither has any taxable income for the year (2003: nil).

TEDA and Xinxing, being limited liability companies in Beijing High and New Technology Development Provisional Zone, are entitled to a concessing EIT rate of 15% and shall also be entitled to exemption from income tax for three years commencing from the first operating year. Year 2004 is the third operating year both for TEDA and Xinxing.

Therefore they are both exempted from EIT and local income tax. STEDA, being a non-production FIE incorporated in PRC, is subjected to the statutory 30% EIT and 3% local income tax. STEDA has not provided for any EIT since it has no taxable income for the period end.

6. Taxation *(continued)*

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

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

	2004	2003
	RMB	RMB
Loss before taxation	**(18,995,828)**	(25,288,996)
Calculated at statutory rate of 33% (2003: 33%)	**(6,268,623)**	(8,345,369)
Expenses not deductible for taxation purposes	**2,410,888**	1,848,092
Effect of tax exemption	**(163,686)**	(993,040)
Tax rate differential	**2,328,220**	4,249,235
Tax losses not recognised	**1,610,705**	3,241,082
Taxation charge	**82,496**	–

(b) Deferred taxation

At 31 December 2004, the Group had the following respective estimated unused tax losses, which will expire as follows:

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Year of expiry				
2005	**8,275,000**	**8,405,000**	8,275,000	8,405,000
2006	**7,621,000**	**7,666,000**	7,621,000	7,666,000
2007	**7,899,000**	**6,364,000**	7,899,000	6,364,000
2008	**22,698,000**	**18,544,000**	22,698,000	18,544,000
2009	**16,052,000**	**13,427,000**	N/A	N/A
	62,545,000	**54,406,000**	46,493,000	40,979,000

No deferred tax assets has been recognized (2003: nil) as the availability of future taxable profit to utilize the temporary differences is not probable.

7. Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB13,967,988 (2003: RMB18,845,811).

8. Dividend

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

9. Loss per share

The calculation of loss per share is based on the Group's loss attributable to shareholders of RMB15,546,137 (2003: RMB24,841,779), and the 400,000,000 (2003: 400,000,000) ordinary shares in issue during the year.

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

10. 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:

	2004	2003
	RMB	RMB
Directors' fees	**290,000**	276,250
Salaries, housing and other allowances	**1,463,849**	1,614,089
Discretionary performance bonuses	**–**	2,900
Pension	**62,130**	81,663
	1,815,979	1,974,902

10. 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	
	2004	2003
Nil – RMB1,060,000 (equivalent to Nil – HK$1,000,000)	**14**	17

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

	2004 **RMB**	2003 RMB
Executive Directors:		
Director A	**634,342**	634,261
Director B	**348,184**	368,017
Director C	**224,708**	244,720
Director D	**137,000**	164,017
Director E (Note (i))	**N/A**	–
Non-executive directors:		
Director F	**100,000**	100,000
Director G	**30,000**	30,000
Director H	**30,000**	3,750
Director I	**30,000**	20,000
Director J	**30,000**	30,000
Director K	**30,000**	N/A
Director L	**N/A**	110,717
Director M	**N/A**	26,250
Director N	**N/A**	26,250
	1,594,234	1,757,982
Supervisors:		
Supervisor O	**146,568**	148,317
Supervisor P	**35,177**	28,603
Supervisor Q	**20,000**	20,000
Supervisor R	**20,000**	20,000
	221,745	216,920
	1,815,979	1,974,902

Note:

(N/A) Not Directors during the respective years.

(i) Emolument of RMB106,250 waived by this director.

10. 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 (2003: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

	2004	2003
	RMB	RMB
Salaries, housing and other allowances	**1,277,429**	1,980,728

The emoluments fell within the following bands:

	Number of individuals	
	2004	2003
Nil - RMB1,060,000 (equivalent to Nil - HK$1,000,001) (Note (i))	**2**	1
Over RMB1,060,001 (equivalent to HK$1,000,001)	**–**	1

Note:

(i) One individual resigned from the Group since March 2004.

(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 (2003: nil).

None of the Directors and Supervisors waived any emoluments during the year (2003: one).

11. Property, plant and equipment

Group

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction-in -progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost:						
At 1 January 2004	5,237,823	9,481,007	4,014,492	2,865,699	62,057	21,661,078
Additions	1,271,545	2,296,267	971,050	671,238	12,955	5,223,055
Transfer	–	75,012	–	–	(75,012)	–
Disposals	(279,439)	(181,301)	(710,274)	(55,105)	–	(1,226,119)
At 31 December 2004	**6,229,929**	**11,670,985**	**4,275,268**	**3,481,832**	**–**	**25,658,014**
Accumulated depreciation:						
At 1 January 2004	1,543,735	2,153,004	1,324,309	1,065,743	–	6,086,791
Charge for the year	676,467	799,691	515,091	540,785	–	2,532,034
Disposals	(47,970)	(21,404)	(272,404)	(13,381)	–	(355,159)
At 31 December 2004	**2,172,232**	**2,931,291**	**1,566,996**	**1,593,147**	**–**	**8,263,666**
Net book value:						
At 31 December 2004	**4,057,697**	**8,739,694**	**2,708,272**	**1,888,685**	**–**	**17,394,348**
At 31 December 2003	3,694,088	7,328,003	2,690,183	1,799,956	62,057	15,574,287

11. Property, plant and equipment *(continued)*

Company

	Buildings	Plant and machinery	Motor vehicles	Furniture, fixtures and equipment	Construction-in-progress	Total
	RMB	RMB	RMB	RMB	RMB	RMB
Cost:						
At 1 January 2004	2,048,637	4,849,481	1,487,742	1,308,334	62,057	9,756,251
Additions	247,711	2,249,267	288,868	111,338	12,955	2,910,139
Transfer	–	75,012	–	–	(75,012)	–
Disposals	(279,439)	(100,100)	(556,273)	–	–	(935,812)
At 31 December 2004	**2,016,909**	**7,073,660**	**1,220,337**	**1,419,672**	**–**	**11,730,578**
Accumulated depreciation:						
At 1 January 2004	591,125	673,138	541,987	530,668	–	2,336,918
Charge for the year	159,587	389,971	228,968	208,649	–	987,175
Disposals	(47,970)	(20,444)	(272,404)	–	–	(340,818)
At 31 December 2004	**702,742**	**1,042,665**	**498,551**	**739,317**	**–**	**2,983,275**
Net book value:						
At 31 December 2004	**1,314,167**	**6,030,995**	**721,786**	**680,355**	**–**	**8,747,303**
At 31 December 2003	1,457,512	4,176,343	945,755	777,666	62,057	7,419,333

Note:

(i) The Group's and the Company's buildings are held in the PRC under a medium-term lease.

(ii) Net book value of plant and machinery held under finance lease of the Group and the Company amounted to RMB1.8 million (2003: RMB2.0 million). In addition, machinery of the Group and the Company with net book value of RMB2.4 million (2003: nil) were secured against certain of the Group's banking facilities (Note 22(i)).

12. Proprietary technologies

	Group 2004 RMB	Group 2003 RMB
Cost		
At 1 January	**4,400,000**	4,400,000
Addition	**1,516,660**	–
At 31 December	**5,916,660**	4,400,000
Accumulated amortisation		
At 1 January	**1,246,564**	366,564
Charge for the year	**930,140**	880,000
At 31 December	**2,176,704**	1,246,564
Carrying value		
At 31 December	**3,739,956**	3,153,436

13. Goodwill on consolidation

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

	Group 2004 RMB	Group 2003 RMB
Cost		
At 1 January	**5,933,104**	5,833,104
Arising from acquisition of additional equity interest in a subsidiary (Note 25(b))	**(994,857)**	100,000
At 31 December	**4,938,247**	5,933,104
Accumulated amortisation		
At 1 January	**1,267,827**	864,408
Charge for the year	**303,419**	403,419
At 31 December	**1,571,246**	1,267,827
Carrying value		
At 31 December	**3,367,001**	4,665,277

14. Interests in subsidiaries

	Company 2004 RMB	Company 2003 RMB
Unlisted investments, at cost	**17,912,172**	16,535,172
Amounts due from subsidiaries	**37,491,115**	24,041,800
Amount due to a subsidiary	**(226,738)**	(144,135)
	55,176,549	40,432,837

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

The following is a list of the Group's subsidiaries at 31 December 2003 and 2004; all of which are incorporated and operating in the PRC:

	Date of incorporation and legal entity status	Principal activities	Registered capital (RMB'000)	Attributable equity interest held 2004	Attributable equity interest held 2003
Tianjin Alpha HealthCare Products Co., Ltd. ("Alpha")	15 August 1994, joint-venture enterprise	Manufacturing and distribution of diabetic health food and related products	3,600	**75%**	75%
Tianjin Wan Tai Bio-Development Co., Ltd. ("Wantai")	3 September 2001, limited liability company	Trading in biomedical equipment and biomaterials	5,000	**97%** (Note (i))	97%
Tianjin Yisheng Bioengineering Co., Ltd. ("Yisheng")	17 February 2003, limited liability company	Manufacturing and distribution of diabetic health food products, biomedical equipment and biomaterials and rendering related consultation services	5,000	**70%**	70%
Beijing TEDAX² Medical Engineering Co., Ltd. ("TEDA")	17 December 2001, limited liability company	Investment holding and holder of proprietary technologies	14,000	**99.7%** (Note (ii))	60%
Beijing Xinxing Bio-medical Engineering Research and Development Institute ("Xinxing")	23 June 1995, limited liability company	Manufacturing and distribution of biomedical equipment	1,000	**99.7%** (Note (iii))	60%
Shandong TEDA Bio-Engineering Co., Ltd. ("STEDA")	18 September 2004, joint-venture enterprise	Engaging in the research & development, production and sale of biological fertilizer, combined fertilizer, mixed fertilizer and plant fertilizer including the application of related technology	18,000	**51%**	–

14. Interests in subsidiaries *(continued)*

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

Note:

(i) 7% equity interest held indirectly by the Company.

(ii) 9.7% equity interest held indirectly by the Company.

(iii) Held indirectly by the Company.

15. Inventories

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Raw materials	**4,985,880**	**1,190,037**	3,657,303	967,416
Work-in-progress	**3,513,546**	**715,992**	3,303,026	430,231
Finished goods	**9,324,634**	**1,888,589**	7,301,589	1,142,468
Packaging materials	**1,267,563**	**25,148**	1,678,157	25,377
	19,091,623	**3,819,766**	15,940,075	2,565,492
Less: Provision for inventory obsolescence	**(1,049,312)**	**(81,092)**	(547,608)	(81,092)
	18,042,311	**3,738,674**	15,392,467	2,484,400

16. Trade receivables

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Trade receivables	**37,765,048**	**2,051,658**	19,641,822	1,786,197
Less: Receivable after one year, classified as non-current assets (Note (b))	**(6,195,127)**	**–**	(6,823,831)	–
Trade receivables, current assets	**31,569,921**	**2,051,658**	12,817,991	1,786,197
Less: Provision for doubtful debts	**(3,757,413)**	**(1,756,806)**	(3,594,973)	(1,734,715)
	27,812,508	**294,852**	9,223,018	51,482

16. Trade receivables *(continued)*

Note:

(a) Except for TEDA and Xinxing where credit terms are subject to individual agreements, the other group companies and the Company generally grant credit terms of 120 days to major customers and 90 days to others. TEDA and Xinxing usually grant credit terms ranging from 90 days to 1 year based on individual contract terms.

(b) An ageing analysis of year end trade receivables is as follows:

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Within 3 months	**23,093,371**	**255,116**	5,712,530	7,930
Between 3 to 6 months	**2,342,608**	**70,682**	2,938,882	57,504
Between 6 to 12 months	**1,752,883**	**–**	1,863,236	159,256
Over 1 year	**4,381,059**	**1,725,860**	2,303,343	1,561,507
	31,569,921	**2,051,658**	12,817,991	1,786,197

Trade receivables due within 3 months include about RMB15.7 million due from Xinyang which was received on 8 April 2005 (Note 3(a)(i)).

(c) Trade receivable, non-current

	Group	
	2004	2003
	RMB	RMB
Instalment sale receivable	**6,823,831**	6,945,894
Less: Current portion	**(628,705)**	(122,063)
Non-current portion	**6,195,126**	6,823,831

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

	Group	
	2004	2003
	RMB	RMB
Within one year	**1,000,000**	500,000
In the second year to fifth year	**7,100,000**	6,100,000
After the fifth year	**–**	2,000,000
	8,100,000	8,600,000
Future finance income on instalment sale receivable, including its respective output VAT portion of RMB240,340	**(1,276,169)**	(1,654,106)
Present value of instalment sale receivable	**6,823,831**	6,945,894

16. Trade receivables *(continued)*

Note: *(continued)*

(c) Trade receivable, non-current *(continued)*

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

	Group	
	2004	2003
	RMB	RMB
Within one year	**628,705**	122,063
In the second year to fifth year	**6,195,126**	4,927,039
After the fifth year	**–**	1,896,792
	6,823,831	6,945,894

17. Prepayments and other receivables

Prepayments and other receivables include the following balances:

(a) In December 2002, the Company entered into an agreement with BCT Global Development Limited ("BCT"), to market Alpha's diabetic health products in Southeast Asia. The fee for this service of HK$ (Hong Kong Dollars) 3 million was paid to another third party ("PAL") which itself is related to BCT. Any expenditure incurred by BCT for the Company's marketing activities would be reimbursed by PAL accordingly on behalf of the Company.

During 2003, the related marketing plan was terminated. The prepaid fee is being refunded to the Company in installments. During 2004, RMB700,000 was recovered leaving a balance of RMB2.1 million at 31 December 2004. The Directors are of the opinion that the balance will be collected without significant loss to the Group and that RMB0.6 million will be collected in 2005. On this basis, RMB0.6 million has been grouped under current assets and the remaining RMB1.4 million as non-current receivables (2003: RMB2 million).

The Directors confirmed that both BCT and PAL are independent unrelated third parties.

(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 2004, the unamortised balance of the living allowances is RMB100,000.

18. Balances with related parties

	Note	2004 Group RMB	2004 Company RMB	2003 Group RMB	2003 Company RMB
Due from					
Ultimate holding company		**1,724,194**	**1723,694**	1,724,194	1,723,694
Minority shareholders of subsidiaries		**–**	**299,128**	1,799,128	1,499,128
Directors	19	**35,112**	**33,106**	38,076	30,662
		1,759,306	**2,055,928**	3,561,398	3,253,484
Due to					
Sole investor of ultimate holding company		**852,948**	**852,948**	500,004	500,004
Ultimate holding company		**494,286**	**344,286**	544,286	344,286
A minority shareholder of a subsidiary		**–**	**–**	5,756	–
Directors and Supervisors	19	**290,000**	**290,000**	166,250	166,250
		1,637,234	**1,487,234**	1,216,296	1,010,540

All balances due from/to related parties are unsecured, non-interest bearing and have no fixed repayment terms.

19. Due from/to Directors and Supervisors

Details of the amounts due from Directors of the Group and the Company as at 31 December 2004 and 2003 are set out below:

2004

	Group Amount outstanding at 31 December RMB	Group Maximum amount outstanding during the year ended 31 December RMB	Company Amount outstanding at 31 December RMB	Company Maximum amount outstanding during the year ended 31 December RMB
Mr. Wang Shuxin	**16,291**	**23,662**	**16,291**	**23,662**
Professor Gu Hanqing	**16,815**	**16,815**	**16,815**	**16,815**
Mr. Xie Kehua	**–**	**5,000**	**–**	**–**
Ms. Zheng Dan	**2,006**	**2,414**	**–**	**–**
	35,112		**33,106**	

19. Due from/to Directors and Supervisors *(continued)*

2003

	Group		Company	
	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	23,662	41,982	23,662	41,982
Professor Gu Hanqing	7,000	7,000	7,000	7,000
Mr. Xie Kehua	5,000	14,000	–	–
Ms. Zheng Dan	2,414	2,771	–	–
	38,076		30,662	

Details of the amounts due to Directors and Supervisors of the Group and the Company as at 31 December 2004 and 2003 are set out below:

	Group and Company	
	2004 RMB	2003 RMB
Professor Xiao Zhuoji	**100,000**	50,000
Mr. Feng Enqing	**30,000**	–
Mr. Liu Zhenyu	**30,000**	–
Mr. Xie Guangbei	**30,000**	20,000
Professor Xan Guoming	**30,000**	30,000
Professor Zhao Xiuying	**30,000**	–
Mr. Zhu Gang	**20,000**	20,000
Mr. Chang Zheng	**20,000**	20,000
Professor Sun Zhiyuan	**–**	26,250
	290,000	166,250

The amounts due from Directors mainly represent travelling advances. The amounts due to Directors and Supervisors mainly represent payables in relation to Directors' fees and salaries. The balances with them are unsecured, non-interest bearing and have no fixed repayment terms.

20. Restricted bank deposit

The restricted bank deposit is a fixed bank deposit pledged to secure a short-term bank borrowing of RMB22,000,000 (2003: RMB5,000,000) described in Note 22 below and for the letter of credit facilities granted by the same bank.

21. Trade payables

Generally, the credit terms received from suppliers of the Group and the Company is 90 days. An ageing analysis of year end trade payables is as follows:

	2004		2003	
	Group RMB	**Company RMB**	Group RMB	Company RMB
Within 3 months	**13,064,271**	**24,822**	1,175,463	105,338
Between 3 to 6 months	**341,058**	**4,000**	835,570	–
6 months to one year	**288,125**	**1,694**	92,589	6,440
Over one year	**110,526**	**110,526**	97,249	97,249
	13,803,980	**141,042**	2,200,871	209,027

Trade payables due within 3 months include RMB15 million due to Guangdong Fulilong Compound Fertilizer Co., Ltd ("Fulilong"), a major supplier of fertilisers, in relation to the Group's sales to Xinyang (Note 3(a)(i)) before netting off other advance payments of RMB9 million paid to Fulilong. On 4 April 2005, the RMB15 million due to Fulilong was settled.

The Directors confirm that Fulilong is an independent unrelated third party and that Fulilong and Xinyang are also independent of each other and not related.

22. Short-term bank borrowings

	2004		2003	
	Group RMB	**Company RMB**	Group RMB	Company RMB
Short term bank borrowings:				
– secured against bank balances (Note (20))	**22,000,000**	**22,000,000**	5,000,000	5,000,000
– secured against fixed assets (Note (i))	**1,000,000**	**–**	–	–
– unsecured (Note (ii))	**35,800,000**	**32,000,000**	31,700,000	27,000,000
	58,800,000	**54,000,000**	36,700,000	32,000,000

Note:

(i) Secured against machinery with net book value of about RMB2.4 million (2003: nil) (Note 11).

(ii) Unsecured loans are guaranteed as follows:

	2004		2003	
	Group RMB	**Company RMB**	Group RMB	Company RMB
Guarantees were provided by:				
– the Company (Note 30)	**3,800,000**	**N/A**	4,700,000	N/A
– Tianjin TEDA Guarantee Co., Ltd.	**32,000,000**	**32,000,000**	27,000,000	27,000,000
	35,800,000	**32,000,000**	31,700,000	27,000,000

(iii) All short-term bank borrowings bore annual interest ranging from 5.3% to 7.3% (2003: from 5% to 6.9%).

23. Finance lease payable

At 31 December 2004, the Group's and the Company's finance lease liability is repayable as follows:

	Group and Company	
	2004	2003
	RMB	RMB
Within one year	**346,816**	168,815
In the second year	**187,686**	178,001
In the third year to fifth year	**626,585**	594,251
After the fifth year	**476,607**	696,627
Obligation under finance lease not wholly repayable within five years	**1,637,694**	1,637,694
Current portion of finance lease payable	**(346,816)**	(168,815)
Non-current portion of finance lease payable	**1,290,878**	1,468,879

Obligations under finance lease are payable 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	
	2004	2003
	RMB	RMB
Total minimum lease payments		
Within one year	**489,230**	244,615
In the second year	**244,615**	244,615
In the third year to fifth year	**733,844**	733,845
After the fifth year	**489,230**	733,844
	1,956,919	1,956,919
Less: Interest portion of finance lease	**(319,225)**	(319,225)
Present value of finance lease obligation	**1,637,694**	1,637,694

24. Share capital

(a) The Company's issued and fully paid up capital comprise:

	2004		2003	
	Number (million)	**RMB (million)**	Number (million)	RMB (million)
Ordinary shares of RMB0.1 each:				
– Domestic shares	**300**	**30**	300	30
– "H" shares	**100**	**10**	100	10
	400	**40**	400	40

Domestic shares represent unlisted shares held by corporations in the PRC.

In June 2002, the Company issued 100 million 'H' shares in the Growth enterprise market ("GEM") of The Stock Exchange of Hong Kong.

All Domestic and 'H' shares rank pari passu in all major aspects.

(b) No share options had been granted by the Company under its share option scheme (the "Scheme") since its adoption (2003: nil). At 31 December 2004, 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 (2003: nil).

25. Consolidated cash flow statement

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

	2004 RMB	2003 RMB
Cash flows from operating activities:		
Loss before taxation	**(18,995,828)**	(25,288,996)
Provision for doubtful debts	**7,962,440**	997,675
Provision for inventory obsolescence	**501,704**	466,516
Depreciation	**2,532,034**	2,806,107
Loss/(gain) on disposal of property, plant and equipment	**30,065**	(305)
Interest expense	**3,013,371**	894,214
Interest income	**(771,606)**	(589,405)
Taxation paid	**(82,496)**	–
Amortisation of proprietary technologies	**930,140**	880,000
Amortisation of goodwill on consolidation	**303,419**	403,419
Operating loss before working capital changes	**(4,576,757)**	(19,430,775)
Increase in inventories	**(3,151,548)**	(7,665,770)
Increase in trade receivables	**(18,123,225)**	(7,550,247)
Increase in prepayments and other receivables	**(10,457,506)**	(2,517,194)
Increase/(decrease) in amount due from related parties	**1,802,092**	(2,185,028)
Increase in trade payables	**11,603,109**	570,612
(Decrease)/increase in other payables and accruals	**(20,404)**	5,206,019
Decrease in government grants received in advance	**–**	(450,000)
Increase/(decrease) in amount due to related parties	**420,938**	(626,555)
Decrease in other long-term liabilities	**–**	(700,000)
Net cash used in operations	**(22,503,301)**	(35,348,938)

(b) Acquisition of additional equity interest in a subsidiary

	2004 RMB (Note (i))	2003 RMB
Share of net assets acquired/(liabilities assumed)	**994,857**	(–)
(Negative goodwill)/Goodwill (Note 13)	**(994,857)**	100,000
Net cash outflow	**–**	100,000
Satisfied by Cash	**–**	100,000

25. Consolidated cash flow statement *(continued)*

Note:

(i) Effective from 1 June 2004, the Group increased its interest in a subsidiary, TEDA by 60% to 99.7%. The additional interest was acquired from the subsidiary's minority shareholders at zero consideration.

The value of assets acquired and liabilities assumed were based on book value of TEDA and its wholly owned subsidiary Xinxing together with necessary adjustments made by the Directors of the Company to reflect the fair value of the assets acquired, resulting in a negative goodwill of RMB994,857.

(c) Analysis of changes in financing during the year

	2004								2003
	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	(25,043,950)	5,962,180	36,700,000	1,637,694	123,829,279	112,146,902
Addition of short-term bank borrowings	–	–	–	–	–	54,800,000	–	54,800,000	20,900,000
Repayment of short-term bank borrowings	–	–	–	–	–	(32,700,000)	–	(32,700,000)	(11,800,000)
Acquisition of subsidiary (Note 25(b))	–	–	–	–	(994,857)	–	–	(994,857)	–
Capital injection by minority shareholders	–	–	–	–	1,325,875	–	–	1,325,875	1,500,000
Minority interests' share of loss	–	–	–	–	(3,532,187)	–	–	(3,532,187)	(447,217)
Inception of finance lease	–	–	–	–	–	–	–	–	2,126,923
Repayment of finance lease	–	–	–	–	–	–	–	–	(489,229)
Translation difference	–	–	–	–	–	–	–	–	(108,100)
At 31 December	40,000,000	2,541,404	62,031,951	(25,043,950)	2,761,011	58,800,000	1,637,694	142,728,110	123,829,279

(d) Major non-cash transactions

No other major non-cash transactions other than the additional equity interest in a subsidiary described in Note 25(b).

26. Commitments

(a) Capital commitments

At 31 December 2004, the Group and the Company had the following significant capital commitments:

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Authorised and contracted for				
– Acquisition of plant and machinery	**–**	**–**	174,197	174,197
– Acquisition of land use right	**1,320,000**	**–**	–	–
	1,320,000	**–**	174,197	174,197

(b) Operating lease commitments

At 31 December 2004, the Group and the Company had the following operating lease commitments:

(i) Non-cancellable operating lease agreements with independent third parties for rental of office premises or apartment as follow:

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**513,000**	**179,000**	653,000	368,000
Later than one year and not later than five years	**19,000**	**–**	310,000	154,000
Total future lease payments	**532,000**	**179,000**	963,000	522,000

(ii) Non-cancellable operating lease agreements, with related parties for the rental of office or production premises as follow:

	2004		2003	
	Group	**Company**	Group	Company
	RMB	**RMB**	RMB	RMB
Not later than one year	**1,142,000**	**542,000**	200,000	–
Later than one year and not later than five years	**4,566,000**	**2,166,000**	3,225,000	1,625,000
More than five years	**1,047,000**	**497,000**	2,347,000	1,580,000
Total future lease payments	**6,755,000**	**3,205,000**	5,772,000	3,205,000

26. Commitments *(continued)*

(b) Operating lease commitments *(continued)*

(ii) *(continued)*

In respect of one of the leases included in the above analysis, the Group enjoys rent-free period up to 31 December 2004. Thereafter, the monthly rental will be determined based on prevailing market price. The above analysis of future minimum lease payments in respect of this lease is estimated with reference to the most comparable prevailing market rates on that basis. Such rent fee concession enjoyed by the Group amounted to about RMB380,000 in 2004 (2003: RMB200,000).

27. 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.

Other than 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 in the ordinary course of the Group's business.

	2004	2003
	RMB	RMB
Operating lease rental charged by TTII and its sole investor	**894,744**	913,217
Property management fee charged by TTII	**–**	177,456
Purchases of proprietary technologies/finished goods from a minority shareholder of a subsidiary	**1,500,000**	2,985,647

28. Ultimate holding company

The Directors regard Tianjin TEDA International Incubator ("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.

29. Contingent liabilities

The Company guaranteed the banking facilities granted to certain of its subsidiaries amounting to RMB3.8 million (2003: RMB4.7 million).

30. Approval of accounts

The accounts were approved by the board of Directors on 15 April 2005.

NOTICE
OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the 2004 annual general meeting ("AGM") of Tianjin TEDA Biomedical Engineering Company Limited (the "Company") will be held at 9th Floor, Block A2, Tianda High-Tech Park, No. 80 The 4th Avenue, TEDA, Tianjin, the People's Republic of China (the "PRC") at 9:00 a.m. on Wednesday, 8 June 2005 for the following purposes:

I. As ordinary resolutions:

1. To consider and, if thought fit, approve the Directors' Report of the Company for 2004;

2. To consider and, if thought fit, approve the Report of the Supervisory Committee of the Company for 2004;

3. To consider and, if thought fit, approve the audited consolidated accounts of the Company for the year ended 31 December 2004;

4. To consider and, if thought fit, approve that no final dividend is declared for 2004;

5. To consider and, if thought fit, approve the proposal of re-appointing Messrs. PricewaterhouseCoopers as auditors of the Company for 2005 and authorize the Directors of the Company to fix their remuneration; and

6. To transact any other business.

II. As a special resolution:

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

NOTICE OF ANNUAL GENERAL MEETING

(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."

By order of the Board
Wang Shuxin
Chairman

Tianjin, the PRC
20 April, 2005

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 48 hours before the time for holding the meeting or 48 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 48 hours before the time for holding the meeting or 48 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 9 May 2005 to 8 June 2005 (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 6 May 2005 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 18 May 2005.

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) 5981 6909